United States Court of Appeals for the Second Circuit

APPENDIX

ORIGINAL

76-7528

B

P/S

United States Court of Appeals

FOR THE SECOND CIRCUIT

UNITED STATES STEEL AND CARNEGIE PENSION FUND, INC., CONNECTICUT MUTUAL LIFE INSURANCE COMPANY, and THE NATIONAL BANK OF COMMERCE OF DALLAS (AS TRUSTEE OF THE OMEGA-ALPHA, INC. POOL TRUST),

Plaintiffs-Appellants,

—against—

HENRY ORENSTEIN, FIRST NATIONAL CITY BANK, HAYDEN STONE INC., BERNSTEIN-MACAULAY, INC., ROGER S. BERLIND, and SANFORD I. WEILL,

Defendants,

—and—

FIRST NATIONAL CITY BANK,

Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

UNITED STATES COURT OF APPEALS
FILED
JAN 31 1977
A. DANIEL FUSARO, CLERK
SECOND CIRCUIT

JOINT APPENDIX

Volume V

(Pages A3197 to A3904)

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A 3197

P. EXH 692

10/25/74
67

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE 9/28/71

FROM Albert J. Lusk, AVP TO File

SUBJECT: Topper Corp.

Dave Downs, VP and Dick Moore, AVP at Manufacturers Hanover, advised that we will receive $5,250M in Federal funds from Manufacturers for Topper's loan account on 9/29/71.

Funds represent the sale of long term debentures to various insurance companies and U.S. Steel Pension Fund.

Tim Madden has been advised.

Funds will be sent to my attention.

Details of debentures and sale will follow.

Settlement should be made with participants immediately on receipt of the $5,250M.

AJL

A 3198

P. EXH 697

10/23/74

SS

[illegible]

FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE February 4, 1972

FROM A. J. Lusk TO Contract File

SUBJECT: Topper Corporation
(Subsidiary Educational Toys, Inc.)

The lenders and representatives of CBWL - Hayden Stone, met almost continuously from Monday morning to late Wednesday evening on the above matter. This memo highlights some of the developments during that period and the conclusions reached.

Initially, Henry Clarke reported as follows:

1. V.P. Sales expected to be released or resign as of February 3rd with Henry Orenstein as temporary replacement.

2. Collections have deteriorated further (which we were already aware of). As a result the company sent letters to all customers withdrawing previous commitments for returns and allowances unless payments had already been sent or returned goods was enroute.

3. Clarke had satisfied himself by discussions with other toy people including Jerry Fryer (Gabriel Industries) and Ron Saypol, (Lionel Leisure) and check of inventory that products had good marketability, particuliarly, the Sesame Street line of E.T.I.

4. Number of employees has been cut from 1,100 to 780.

5. The Hong King operation was cut down substantially, although there was approximately $1MM in finished goods to follow.

6. Changes in the Board of Directors was being made to swing control to a group headed by Henry Clarke.

7. Executive committee being formed to make major decisions, headed by Clarke.

8. Initial reaction was to project 1972 volume at $30MM.

National Acceptance, a subsidiary of Walter Heller & Co., Chicago, brought in by Clarke, made the following offer to the Banks and Ford:

> Initial payment to the lenders of $4.6MM (vs. $12.8MM debt). Lenders to give up first security interest and have secondary position for balance of $8MM payable over five year term and subject to liquidation of existing inventory.

A 3199

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE

FROM TO

SUBJECT:

Manufacturers L/C acceptance position would be at a "third tier" also on a five year liquidation. Collections on existing accounts receivable would be spread 50% to reduce National's new obligation, 25% reserve (to be released later to the company) and 25% to the company for working funds. National was to value existing receivables at 50%, advance $3.5MM on existing inventory and .5MM on fixed assets. Going forward guidelines were: 80% accounts receivable and 40% inventory with expectations of developing $5MM in new money for the company if warranted by the collateral in addition to the $3MM/$4MM developed initially exclusive of the old lenders payout.

It was subsequently concluded that this offer was unsatisfactory as the lenders believed they could realize substantially more than offered from liquidation of the collateral over the near term. Furthermore, control going forward would be completely in the hands of outsiders. A counter proposal whereby the secured lenders would receive an initial payout of $6.8MM was offered to National, but was not acceptable to them.

The possibility of being forced into a Chapter X proceeding was brought up and it was the unanimous opinion that this would be detrimental to the lenders because of the practice of the Courts in Jersey to appoint a Trustee and use the lenders collateral to raise new money. Furthermore, this could possibly result in a cancellation of the Sesame Street license. The deterioration of accounts receivable and inventory would likewise be accelerated.

The lenders decided to pursue in part the formula suggested by National Acceptance, except of course, that we will retain a first position on the collateral. Under this proposed plan the lenders would place $8MM of their loan on a deferred basis.

The remainder of the $4.8MM plus $1MM for working capital and $1.4MM to be paid to certain note holders as a 50% settlement (to be renogotiated downward by Clarke) would be collateralized by $12MM of existing inventory and $7MM of existing accounts receivable subject to our being satisfied that these values were realistic. Going forward it was proposed that we make an 80% advance on new receivables and 40% advance on new finished inventory. Any excess cash flow generated by liquidaiton of the old inventory and receivables would be applied against the deferred position of the loan.

A 3200

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE____________________

FROM______________________________ TO______________________________

SUBJECT:

Receivables would be on a full notification basis.

Manufacturers Hanover who hold approximately $2MM of acceptances and $1MM of open L/C's will deal direct with Topper and will sell for cash such merchandise required by Topper after review by the lenders representative as to the need for such merchandise.

Approximately, $900M will be needed between now and February 15th, which we agreed to release only out of collections so that exposure [illegible] will not increase and hopefully additional accounts receivable will develop through the Sesame Street line.

By the 15th, Clarke and the company will have:

1. Public announcement of tentative continued financing.

2. Meeting with trade creditors (scheduled for 2/11). Clarke is hopeful of a reasonable settlement with creditors, with payments spread over an extended period. Settlement with Dancer Fitzgerald (advertising agency) is expected to be more favorable to the Company.

3. Formalize agreement with U. S. Steel Pension Fund and other Indenture holders for relief of restrictive covenants and balance sheet requirements. The conversion price for Steel has been reduced from $15.00 to $5.00.

4. Finalize the agreement with the $2.8MM note holders. Ford Motor Credit voiced strong objections on Wednesday to this 50% settlement, although we were advised on Monday of the plan and the necessity for concluding the arrangements that same day. No strong objection was forthcoming originally, only after the fact. Ford is only willing to share this expenditure to the extent of $700M. Clarke and Weill (CBWL) said they will on a best efforts basis try to restructure this settlement but said they may only be able to affect $1.1MM out of the $1.4MM. If they are unable to make Ford' target of $700M and if the banks agree to the excess on a junior basis, Ford has stated they will withdraw to a [illegible] level of $500M. In any event the Banks agreed to take the exposure on the excess.

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE

FROM TO

SUBJECT:

5. Improvement in collections (notification program on our part) and new concentration on sales effort.

6. Near term projection to be documented.

FNCB will continue to monitor disbursement and manage the loan and collateral.

New or amended agreement between the lenders to be drafted by counsel.

A. J. Lusk

AJL/ec

CC: Mr. Robert Deuchar, V.P.
Comptrollers Department
Credit Review

A 3202

PRESENT AT MEETING

ON

February 2, 1972

WILKIE, FARR, GALLAGHER

KENNETH J. BIALKIN

CARTER, BERLIND, WEILL & CLARKE

SANFORD WEILL
HENRY CLARKE

WHITE & CASE

J. HENISEY

FORD MOTOR CREDIT CORP.

SIDNEY SKAAR

MANUFACTURERS HANOVER

RICHARD MOORE
JOEL COOPER
DON BAKER
AL CRISTIE
JIM LINDLEY

FIDELITY UNION

JOHN TRIMBLE
TED FOLSOM

FIRST NATIONAL CITY BANK

AL LUSK
EDWARD WALDMAN
MORT SIEGEL
HAROLD HOFFMAN - RATHHEIM, HOFFMAN KASSEL

A 3203

PRESENT AT MEETING

ON

January 31, 1972
&
February 1, 1972

FIRST NATIONAL CITY BANK

EDWARD WALDMAN
MORT SIEGEL
AL LUSK
HAROLD M. HOFFMAN - Attorney

FIDELITY UNION

JOHN TRIMBLE
TED FOLSOM
BILL RIKER

FORD MOTOR CREDIT

BUD LAVERY
DICK CORNWALL
SID SKAAR
BILL DAVENPORT
PETER WEIL - KSFH&H

MANUFACTURERS HANOVER TRUST

DON BAKER
AL CHRISTIE
BILL LONSDOLE
JIM LINDLEY
PAUL HUNN
DICK MOORE
JOEL COOPER

CARTER, BERLIND, WEILL & CLARKE

SANFORD WEILL
HENRY CLARKE

A 3204 P. EXH 700
10/25/74
SS

TOPPER CORPORATION
107 Trumbull Street
Elizabeth, New Jersey

		DATE
TJS		
ACCT. EXEC.		3/5/71
A. LUEK		3/[illegible]/71
H. DUNN		3/8
K. JOHNSON		3/9/71
AUDITOR		3/21/71

A 3205

Tiffany Corp.

Audit Comments 3/31/71 1/[illegible]

Accounts Receivable

1- Client does not process adjustments to purchases or write offs etc monthly - e.g. L.A. Sales A/C was settled by the collection of notes totaling $7700 and deposited to the client's A/C - and the $9000 balance in the A/C written off with no cash or write-off entry sent to us. noted

2- The major portion of the current sales in the 1/31 aging are dating - due 5/10 and 8/10.

3- As of 1/31 there were no dating notes - however from speaking with our credit manager I feel the client is now formulating a dating program with his customers at the "[illegible]" [illegible]. We should be kept abreast of all developments in this area. noted

4- Gross sales for the year 1970 were 74MM as compared to 57MM in 1969 - however dilution and turnover both went up; dilution mainly because of advertising allowances and merchandise returns for [illegible] - turnover because of more extended datings.

Accounts Payable:

1- The accounts were aged strictly by invoice date

A 3208

2 of 2

2 - Checks written thru 12/31/71 but not mailed as of our visit 2/26/71 - were added back to the payable.

3- As far as we could judge from the poor aging, client is very tight and although auditors did not witness any creditor pressure - the A/c payable [illegible] fairly [illegible] that there was considerable [illegible] pressure

Financial - No work of comparison was done since we should be receiving final audited statements shortly. We did get a quick look at the P&L for 1970 and it showed a net profit after taxes of $353M - we were told by Mr. [illegible] and Controller that the above is a final fig

T. J. [illegible]

Dilution is understated as client issues many "credit - debit" invoices for transfer billing - rework - and certain adjustments. Dilution is close to 18-20%. (estimated)

A 3207

ST NATIONAL CITY BA

FACTORING AND COMMERCIAL FINANCE DEPT.

AUDITOR'S REPORT

AUDITORS NAME: [illegible] & TED [illegible]			CLIENT'S NAME AND ADDRESS: Telfax Corp
DATE STARTED: 2/23/71	DATE COMPLETED: 2/26/71	DATE PREVIOUS AUDIT COMPLD: 11/13/70	1.

ACCOUNTS RECEIVABLE OPERATION	☐ DETAIL ☑ CONTROL	☑ INVOICES SUBMITTED ☑ SHIPPING EVIDENCE	☐ NOTIFICATION ☑ NON-NOTIFICATION	**COLLECTIONS**	☑ IN KIND ☐ BLOCKED ACCOUN
CLIENTS MONTHLY REPORTING	DETAIL AGING? ☑ YES ☐ NO	MICROFILM OF RECEIVABLES? ☐ YES ☑ NO	DATE OF LAST MICROFILM: N.A.	CUSTOMER STATEMENTS (COMPLETE RANGE)	☑ YES ☐ NO
	OTHER				
CLIENTS RECEIVABLE RECORDS	☑ MACHINE POSTED	☐ HAND POSTED	☐ OPEN INVOICE	☐ OTHER (INDICATE) I.B.M.	
	DATE POSTED THROUGH:	SALES: 2/24/71	CREDITS: 2/24/71	CASH: 2/24/71	CONDITION OF RECORDS: ☑ SATISFACTORY ☐ UNSATISFACTORY (SEE COMMENTS)
DETAIL RECEIVABLES PROVED TO CLIENT CONTROL AS OF:	DATE:	**TEST OF CLIENT AGING**	AGING DATE: 1/31/71	BALANCE PER AGING: 27,951,748.50	NO. OF ACCOUNTS: 900-1,000 / TESTED: 45

NAME(S) OF CUSTODIAN

WERE INVOICES WITH RECEIPTS TEST CHECKED AGAINST CLIENTS SHIPPING RECORDS FOR DATES & UNITS SHIPPED? ☑ NO ☐ YES (IF YES, INDICATE DOLLAR AMOUNT AND REPORT ANY DIFFERENCES)

RECONCILIATION OF ASSIGNED RECEIVABLES — DATE 1-31-71

CLIENT		HUBSHMAN	
~~GENERAL LEDGER~~ AGING	$ 27.951.748.50	ACCOUNTING STATEMENT	$ 19.744.718.28
INTRANSIT COLLECTION REPORTS		INTRANSIT ASSIGNMENT SCHEDULE	
DATE / NO. / DATE RECEIVED		DATE / NO. / DATE RECEIVED	
1/31 / 1131 / 21	93.000.00	As per Schedule -	1.118.551.83
		Credits - Per Schedule	<173.466.41>
		Adjustments Sent By Client As of 1/31/71 Charged By Fac. Feb.	<292,546.70>
			<1,159,383.27>
			<54,503.64>
		Diff - Assigned Money - By Proc. Dept.	2,660,649.62
UNASSIGNED RECEIVABLES (ATTACH LIST)	6.744.413.31	ADJUSTMENT SHEETS	
TOTAL	$ 21.310.319.67	TOTAL	$ 21.[illegible].319.67

IS CLIENTS ACCOUNTS RECEIVABLE DETAIL IN AGREEMENT WITH GENERAL LEDGER? ☑ YES ☐ NO (INDICATE DIFFERENCES) ☐ UNDER ☐ OVER $ Reconciled monthly.

IS CLIENT PROMPTLY ISSUING CREDIT MEMOS? ☑ YES ☐ NO

ARE ALL ISSUED CREDIT MEMOS PROMPTLY REPORTED? ☑ YES ☐ NO (SEE COMMENTS)

A 3208

PAGE

AUDITOR'S REPORT

CONCENTRATION (ALL ACCOUNTS OVER $25,000 OR 5 LARGEST) NAME	TOTAL
	$
See Schedule in	
Work Papers. – Schedule 14	
INDICATE % OF TOTAL COLLATERAL THIS TOTAL REPRESENTS 29 %	60 A/C'S.

STATUS OF ACCOUNT		AS OF (DATE) 3/1/71
GROSS COLLATERAL		$ 22,823,126
– INELIGIBLE	$	
– PAST DUE	42,463 4,261,667	
[illegible]	3,718,233	8,021,736
NET COLLATERAL AVAILABLE ON ACCOUNTS RECEIVABLE		14,801,26
+ AVAILABLE (OTHER COLLATERAL)		–
TOTAL		14,801,263
– LOAN AMOUNT		14,587,537
AVAILABILITY		213,736

AVAILABLE (213,736)

SALES COMPARISON – OMIT CENTS (FROM CLIENT RECORDS)

PERIOD	CURRENT YEAR DATE Dec 70 SALES	CREDITS	COLLECTIONS	PRIOR YEAR DATE Dec-69 SALES	CREDITS	COLLECTIONS
3 MONTHS	$ 35.602.100	$ 3.066.100 –	$ 19.335.400	$ 25.466.700	$ 742.500	$ 25.361.4
6 MONTHS	56.499.300	5.364.300 –	35.915.300	45.072.700	1.145.300	44.263.4
9 MONTHS	73.717.300	6.611.100 –	42.439.300	57.558.300	1.527.300	47.487.3
12 MONTHS	74.059.300	6.773.300 –	45.734.700	58.415.400	3.450.700	55.494.5

11% 6%

DILUTION.

RECEIVABLE TURNOVER (DAYS-MONTHS)

MONTH	CURRENT YEAR	PRIOR YEAR
Dec	121	85
Nov	124	98
Oct	118	69
Sept	118	104
AVERAGE	117	95

ORDERS ON HAND:	AMOUNT $5,500,000	DATE 2-24-71

IS CLIENTS RECEIVABLE DETAIL STAMPED TO SHOW ASSIGNMENT? ☐ YES ☐ NO (EXPLAIN)

RECEIVABLE AGING – PAST DUE DAYS 60 Days

DATE AGED	1/31/71		10/31/70
CURRENT	11.234.300	43	16.499.376
1-30	5.454.300	20	4.171.113
31-60	1.514.900	6	2.017.587
61-90	1.764.000	4	2.961.760
OVER 90	3.765.700	13	
DETAIL CURRENT [illegible]	24.300	–	72.761
UNACCEPTABLE	4.[illegible]	14	58.179
TOTAL	27.990.000	100%	27.062.821
CREDIT BALANCE	3.100		471.371
NET RECEIVABLES	27.961.000		26.605.450
TERMS OF SALE:	Various – using Dating		

A 3269

AUDITOR'S REPORT

C[illegible]A OR OFFSETS (USE SCHEDULE IF NECESSARY) ADJUSTED? ☐ YES—$ ________ ☐ NO (SEE COMMENTS)

CUSTOMER	AS OF DATE	RECEIVABLE	PAYABLE
None	Noted		

ARE ALL CONFIRMATION EXCEPTIONS SATISFACTORILY RESOLVED AND NO REPLIES ETC. FOLLOWED-UP? ☑ YES ☐ NO (SEE COMMENTS)

SOURCE OF INFORMATION USED FOR CONFIRMATION

☑ CUSTOMER STATEMENT ☐ DETAIL ☐ CLIENT AGING ☐ MICROFILM ☐ OTHER

CLIENTS GENERAL BOOKS	POSTED TO 12/31/70	CONDITION? ☑ SATISFACTORY	☐ UNSATISFACTORY (SEE COMMENTS)	DUE FROM OFFICER'S —0—
EXCHANGE AND SUSPENSE A/C'S	PERIOD COVERED 10/1 - 12/31/70	ANALYZED? ☑ YES ☐ NO	TOTAL AMOUNT $	AMOUNT $ 5,200.00
SUBORDINATED INDEBTEDNESS	NAME(S) [illegible] $1,350.00 + [illegible] $3,850.00 MAINTAINED? ☑ YES ☐ NO	IF NO, PRESENT AMOUNT		INDICATE AMOUNT OF OFFSET $

ARE THE GENERAL LEDGER COLLATERAL AND LOAN LIABILITY ACCOUNTS PROPERLY NOTED TO REFLECT THE ASSIGNMENT TO US? ☐ YES ☑ NO (EXPLAIN)

WAS THE PLANT, WAREHOUSE, ETC. INSPECTED AND VISITED? ☐ YES ☑ NO (EXPLAIN)

ATTACH COMMENT OF ANYTHING UNUSUAL, INCLUDING NEW PRODUCTS, IDLE EQUIPMENT, ETC.

DATE OF LAST FINANCIAL STATEMENT 9/30/70	ANY MATERIAL ITEM ON STATEMENT AND NOT REFLECTED ON BOOKS? ☐ YES (SEE COMMENTS) ☑ NO	CHECKED TO BOOKS BY AUDITOR? ☑ YES ☐ NO (SEE COMMEN

PRIOR AUDIT

COMMENT ON THE STATUS OF OTHER COLLATERAL (INVENTORY, EQUIPMENT) CLAIMED AS TO CONDITION, INSURANCE ETC.

A 3210

PA(

AUDITOR'S REPORT

PAYABLE CONCENTRATION
ALL ACCOUNTS OVER $25,000 OR FIVE (5) LARGEST

NAME	TOTAL
[illegible]	$ 3,220,570
[illegible] Corp	1,038,450
[illegible] Med. Inc.	145,900
IBM	86,635
[illegible] Videotronics	79,912

PERCENT OF TOTAL PAYABLES 80 % | TOTAL $ 4,627,784

TAX STATUS—AS OF /

	TOTAL	CURRENT	ARREARS (SEE COMMENT)
FEDERAL PAYROLL	$	$	$ 1
FEDERAL INCOME			
	Current thru		
	2/26/71		
TOTALS	$	$	$

DOES CLIENT RECEIVE ANY SPECIAL CREDIT TERMS? ☐ NO ☑ YES (EXPLAIN)

ACCOUNTS PAYABLE	CURRENT VISIT	DATE 1/31/71		PREVIOUS VISIT	DATE 9/30/70	
	PURCHASES	PAYABLES	%	PURCHASES	PAYABLES	%
CURRENT MONTH	$	$ 372,068	7	$	$ 1,124,900	2
1ST PREVIOUS MONTH		1,135,098	20		2,083,200	4
2ND PREVIOUS MONTH		2,262,046	38		593,000	11
PRIOR MONTHS	▨	2,[illegible] 37	35	▨	1,293,100	3
TOTAL	▨	5,[illegible]745	100	▨	5,096,900	100
LESS DEBIT BALANCE	▨	752,136	▨	▨	590,500	▨
NET PAYABLES	▨	$5,11[illegible]	▨	▨	$4,505,400	▨

NOTES PAYABLE	CURRENT VISIT DATE 12/31/70	PREVIOUS VISIT DATE 9/30
~~NAME~~ Acceptances	$ 741,279	$
BANK Secured by Cash Collateral	2,500,000	1,550,000
OFFICERS (INDICATE AMOUNT SUBORDINATED)		
Subordinated Notes	5,200,000 —	5,200,000
TOTAL	$ 8,441,279 —	$ 6,750,000

A 3211 1

PAGE

AUDITOR'S REPORT

DATE 1/31/71

RECONCILIATION OF LOAN (INCLUDE ALL ADVANCE ACCOUNTS)—

CLIENT	AMOUNT	HUBSHMAN	AMOUNT
GENERAL LEDGER	$ 10,072,794.94	ACCOUNTING STATEMENT	$ 10,105,794.9
ADVANCE (IN TRANSIT)		COLLECTION (IN TRANSIT)	
DATE DATE RECEIVED		DATE NO. DATE RECEIVED	
a/c Cash - [illegible]			
[illegible] 1/31/71	33000.00		
TOTAL	$ 10,105,794.94	TOTAL	$ 10,105,794.9

WERE ALL IN TRANSIT ASSIGNMENT SCHEDULES AND COLLECTION REPORTS TRACED TO HUBSHMAN RECORDS? ☑ YES ☐ NO

DEPOSITS PER BANK (LAST TWO MONTHS)

	LAST MONTH DATE [illegible]	PRIOR MONTH DATE [illegible]
ADVANCES FROM HUBSHMAN	$ 6,965,000	$ 3,750,000.00
UNASSIGNED RECEIVABLES		
CASH SALES		
[illegible]	279,451.66	
Misc.	319.38	
TOTAL PER BANK	$ 7,244,771.04	$ 3,750,000

WORKING CAPITAL

	THIS AUDIT DATE	LATEST FISCAL DATE
CASH	$	$
ACCOUNTS RECEIVABLE		
INVENTORY: ○ PHYSICAL ○ PERPETUAL ○ OTHER(EXPLAIN)	See	
PREPAID ITEMS	[illegible]	
TOTAL		
ACCOUNTS PAYABLE		
NOTES PAYABLE		
TAXES PAYABLE		
FNCB - NFD		
OTHER		
TOTAL		
NET WORKING CAPITAL	$	$

A 3212

AUDIT INSTRUCTIONS

ACCOUNT EXECUTIVE:

PROCESSING SECTION: Routine Inst.

COLLATERAL RECONCILIATION SECTION:

A 3213

P. EXH 701
10/25/[illegible]
SS

TOPPER CORPORATION
107 Trumbull Street
Elizabeth, New Jersey

		DATE
TJS		5/28/71
ACCT. EXEC.		5/21/71
K. LUSK		5/24
H. DUNN		5/24
K. JOHNSON		5/25
M. Frenkel	MF	5/26
AUDITOR	JC (B)	5/28/71

✓

A 3214

Topper Corp.

Audit Review

3/31/71 – VS – 12/31/70

1) Working Capital Decrease of $5,405 M is due to:

1) Notes Pay. long term now short term 3,863

2) Loss for 3 months to 3/31/71 765

4,628

Unaccounted for $777 M

Total Loss $1400 M

3/21/71

TAX credit on Loss against deferred liability

5/14

Subject Received $6,200 M from sale of stock.

Report satisfactory need more details regards internal review.

TOPPER CORPORATION

AUDIT COMMENTS

5/17/71

Accounts Receivable

Sales for the 12 mo. period ending 3/31/71 were $79 MM compared to same period last year of $67 MM or an increase of $12 MM (18%). Dilutions as at 3/31/71 were 12% compared to 6% last year same period, the increase being in advertising allowances etc., and that in 1971 certain adjustments were passed such as discounts not previously formalized and anticipated sales returns. Increases were by reason of datings.

Receivables as at 4/30/71 of $[illegible] MM have been checked and found in order except for some invoices whose due dates did not tally with client's due dates stated in their pro-forma letters sent to their customers (see schedule #16). Mr. Blasky stated that these invoices were included just so as to satisfy the total amount of receivables requested. Since these additional invoices were taken from the old ones, it appears that client is giving its customers very liberal extended datings.

A collection of $179 M in April/71 representing documents (L/C #12165) under Canadian Imperial Bank of Commerce, N. York Agency, appearing in [illegible] account, was not paid to us. Mr. Blasky has no idea why said remittance was not turned over to us.

A 3216

Item 2 - TOPPER CORPORATION

A review of some of the on account payments indicated there was a considerable delay in receiving the details of the customers' deductions. The auditor discussed the possibility of receiving the details more promptly; however, the A/R manager informed us that this would be difficult to do since there is a cash processing deadline of 2:30 which must be met. He also advised us that cash received with details on deductions receive daily preference over that without, thereby creating a backlog in the processing. In view of the foregoing we may find it necessary to consider setting up a reserve for the reporting delay but several days of checking may be needed to arrive at a reasonable amount.

No reason was given for the delay in sending us the $[illegible] credits we received last week representing rebates for 1970. We expect this kind of credit every year and a reserve is in order.

Client's Customer Service Department processes reports for returns the same day they are received. Mr. Blacky estimated that about $1 of returns are processed a month but because of the flexibility involved, he said his estimate may be wrong.

Accounts Payable

Payables were aged by invoice dates on a first-in, first-out basis, in view of the [illegible] involved:

Page 3: [illegible] Corporation

in determining which debts or adjustments refer to particular bills considering that the schedule is loaded with such items. Checks written up to May 7, 1971 which have been determined to be paying April/71 and prior bills were added back as they have not been released at time of visit. Payables are delinquent in that $[illegible] or [illegible]% of total outstanding of $[illegible] were past due as at 4/30/71 aging date. The A/P supervisor said the reasons for the apparent delay in payments are mainly price disputes.

Financial

Net working capital decreased by $[illegible] as at 3/31/71 unaudited figures compared to 12/31/70 mainly because of a note payable for $3.5 mm due Jan/72. ~~[illegible]~~ ~~[illegible]~~

LONGTERM NOW SHORT TERM

Other

No current raw material inventory is available. According to Mr. [illegible], the latest they have is 12/30/70.

See schedule #15 for merchandise report in New York Terminal showing 3/31/71 total of $[illegible] which is the most current available. At time of visit, April/71 reports have not been received by Mr. [illegible].

Client hired the services of Ed Krupinsky as their Chief Accountant effective 2 months back.

A 3218

RST NATIONAL CITY BA K

FACTORING AND COMMERCIAL FINANCE DEPT.

AUDITOR'S REPORT

PAGE 1

AUDITOR NAME: ESSE L. CURA & JOHN NAGENGAST (W/A/H. P.M.)

CLIENT'S NAME AND ADDRESS: TOPPER CORPORATION
ELIZABETH, NEW JERSEY

DATE STARTED	DATE COMPLETED	DATE PREVIOUS AUDIT COMPL'D
5/10/71	5/12/71	2/26/71

ACCOUNTS RECEIVABLE OPERATION
☐ DETAIL ☑ CONTROL ☑ INVOICES SUBMITTED ☐ SHIPPING EVIDENCE ☐ NOTIFICATION ☑ NON NOTIFICATION

COLLECTIONS ☑ IN KIND ☐ BLOCKED ACCOUNT

CLIENTS MONTHLY REPORTING
DETAIL AGING: ☑ YES ☐ NO
MICROFILM OF RECEIVABLES: ☐ YES ☑ NO
DATE OF LAST MICROFILM: —
CUSTOMER STATEMENTS (COMPLETE RANGE) ☑ YES ☐ NO
OTHER

CLIENTS RECEIVABLE RECORDS
☐ MACHINE POSTED ☐ HAND POSTED ☐ OPEN INVOICE ☐ OTHER (INDICATE) I.B.M.

DATE POSTED THROUGH:	SALES	CREDITS	CASH	CONDITION OF RECORDS
	4/30/71	4/30/71	4/30/71	☑ SATISFACTORY ☐ UNSATISFACTORY (SEE COMMENTS)

DETAIL RECEIVABLES PROVED TO CLIENT CONTROL AS OF:	TEST OF CLIENT AGING	AGING DATE	BALANCE PER AGING	NO. OF ACCOUNTS	TESTED
DATE		4/30/71	$27,804,661.43	APPRX. 800	35

NAME(S) OF CUSTODIAN

WERE INVOICES WITH RECEIPTS TEST CHECKED AGAINST CLIENTS SHIPPING RECORDS FOR DATES & UNITS SHIPPED? ☑ NO ☐ YES (IF YES, INDICATE DOLLAR AMOUNT AND REPORT ANY DIFFERENCES)

RECONCILIATION OF ASSIGNED RECEIVABLES — DATE 4/30/71

CLIENT		HUBSHMAN	
~~GENERAL LEDGER~~ PER AGING 4/30/71	$27,804,661.43	ACCOUNTING STATEMENT	$26,132,854.86
INTRANSIT COLLECTION REPORTS		INTRANSIT ASSIGNMENT SCHEDULE	
DATE NO. DATE RECEIVED		DATE NO. DATE RECEIVED	
		I/T S/A's - SEE WORK PAPERS	1,013,787.57
		I/T C/M's - SEE WORK PAPERS	<23,196.27>
		I/T BILL & HOLDS S/A #1148 #34 REC'D 5/3	10,462.44
		S/A #1137 - IRWIN TOYS - ~~[illegible]~~	<163,049.28>
		JOURNALIZED BY M. SIEGEL	
		DIFFERENCE - ENC. SHEET	839,362.11
UNASSIGNED RECEIVABLES (ATTACH LIST)		ADJUSTMENT SHEETS ADJ. BY PROC.	
TOTAL	$27,804,661.43	TOTAL	$27,804,661.43

S CLIENTS ACCOUNTS RECEIVABLE DETAIL IN AGREEMENT WITH GENERAL LEDGER? PER 4/30/71 — ☑ YES ☐ NO (INDICATE DIFFERENCE) ☐ UNDER ☐ OVER $ — $ —
DIFFERENCES [illegible] BY CLIENT.

S CLIENT PROMPTLY ISSUING CREDIT MEMOS? ☑ YES ☐ NO

ARE ALL ISSUED CREDIT MEMOS PROMPTLY REPORTED? ☑ YES ☐ NO (SEE COMMENTS)

A 3219

AUDITOR'S REPORT

4/30/71

CONCENTRATION (ALL ACCOUNTS OVER $25,000 OR 5 LARGEST)

NAME	TOTAL
	$
See Schedule	
# 14	
<66 A/Cs - Over	
$100,000>	13,718,700

INDICATE % OF TOTAL COLLATERAL THIS TOTAL REPRESENTS 55 % | 13,718,700

STATUS OF ACCOUNT | AS OF (DATE) 5/14/71

GROSS COLLATERAL		$26,715,785.-
- INELIGIBLE	$2,085,981.-	
- PAST DUE	7,467,651.-	
Equity - 20%	3,432,430.-	<12,986,062.->
NET COLLATERAL AVAILABLE ON ACCOUNTS RECEIVABLE		13,729,723.-
+ AVAILABLE (OTHER COLLATERAL)		— 0 —
TOTAL		13,729,723.-
- LOAN AMOUNT		12,953,639.-
AVAILABILITY		776,084.-

SALES COMPARISON—OMIT CENTS (FROM CLIENT RECORDS)

PERIOD	CURRENT YEAR DATE to 3/31/71 SALES	CREDITS	COLLECTIONS	PRIOR YEAR DATE to 3/31/70 SALES	CREDITS	COLLECTIONS
3 MONTHS	$ 4,764,900	$ 3,445,420	$ 13,357,800	$ 2,165,300	$ 1,912,300	$ 13,041,900
6 MONTHS	41,365,000	6,816,000	32,835,700	25,414,000	2,457,300	34,841,900
9 MONTHS	64,764,400	9,115,420	46,767,000	46,181,000	3,633,600	46,883,000
12 MONTHS	79,458,100	10,654,000	52,434,700	61,711,500	3,448,408	[illegible]

Discounts 12 % 6 %

RECEIVABLE TURNOVER (DAYS-MONTHS)

MONTH	CURRENT YEAR	PRIOR YEAR
1971 APR	245	333
MAR	639	300
FEB	523	145
JAN	109	63
AVERAGE	379	222
YR	336	149

ORDERS ON HAND: AMOUNT More than [illegible] DATE [illegible] [illegible] [illegible]

IS CLIENTS RECEIVABLE DETAIL STAMPED TO SHOW ASSIGNMENT? ☐ YES ☐ NO (EXPLAIN)

RECEIVABLE AGING—PAST DUE DAYS 90 DAYS

DATE AGED	4/30/71		1/31/71	
CURRENT	19,874,984.-	72	11,994,300	43
1-30	346,754.-	1	5,400,300	20
31-60	115,400.-	—	1,514,900	6
61-90	2,494,770.-	10	1,454,000	4
OVER 90	2,874,525.-	10	3,765,700	13
DETAIL CURRENT A/R	57,337.-	—	24,500	—
UNACCEPTABLE	2,085,484	7	4,044,000	14
TOTAL	27,837,194	100%	27,990,000	100%
CREDIT BALANCE	33[illegible]33		5,400	
NET RECEIVABLES	27,504,661.-		27,98[illegible]	
TERMS OF SALE:	Various w/ datings			

A 3220

AUDITOR'S REPORT-

RA OR OFFSETS (USE SCHEDULE IF NECESSARY) ADJUSTED? ☐ YES—$ ______ ☐ NO (SEE COMMENTS)

CUSTOMER	AS OF DATE	RECEIVABLE	PAYABLE
NONE	FOUND	AS AT 4/30/71	

ARE ALL CONFIRMATION EXCEPTIONS SATISFACTORILY RESOLVED AND NO REPLIES ETC. FOLLOWED-UP? ☑ YES ☐ NO (SEE COMMENTS)

SOURCE OF INFORMATION USED FOR CONFIRMATION

☑ CUSTOMER STATEMENT ☐ DETAIL ☐ CLIENT AGING ☐ MICROFILM ☐ OTHER

CLIENTS GENERAL BOOKS	POSTED TO 3/31/71	CONDITION? ☑ SATISFACTORY	☐ UNSATISFACTORY (SEE COMMENTS)	
EXCHANGE AND SUSPENSE A/C'S	PERIOD COVERED To 3/31/71	ANALYZED? ☑ YES ☐ NO	TOTAL AMOUNT $ √7,013.11	DUE FROM OFFICER'S -
SUBORDINATED INDEBTEDNESS	NAME(S) N/P DUE 6/30/71 - $1,350 M & 1/31/72 - $9,500 M			AMOUNT $ 5.4 MM
	MAINTAINED? ☑ YES ☐ NO	IF NO, PRESENT AMOUNT		INDICATE AMOUNT OF OFFSET $

ARE THE GENERAL LEDGER COLLATERAL AND LOAN LIABILITY ACCOUNTS PROPERLY NOTED TO REFLECT THE ASSIGNMENT TO US? ☐ YES ☑ NO (EXPLAIN)

WAS THE PLANT, WAREHOUSE, ETC. INSPECTED AND VISITED? ☐ YES ☑ NO (EXPLAIN)

ATTACH COMMENT OF ANYTHING UNUSUAL, INCLUDING NEW PRODUCTS, IDLE EQUIPMENT, ETC.

DATE OF LAST FINANCIAL STATEMENT 12/31/70	ANY MATERIAL ITEM ON STATEMENT AND NOT REFLECTED ON BOOKS? ☐ YES (SEE COMMENTS) ☑ NO	CHECKED TO BOOKS BY AUDITOR? ☑ YES ☐ NO (SEE COMMENTS)

COMMENT ON THE STATUS OF OTHER COLLATERAL (INVENTORY, EQUIPMENT) CLAIMED AS TO CONDITION, INSURANCE ETC.

A 3221

AUDITOR'S REPORT

PAYABLE CONCENTRATION
ALL ACCOUNTS OVER $25,000 OR FIVE (5) LARGEST

NAME	TOTAL
DANCER FITZGERALD	$ 1,557,422
GRACE REPRODUCER CORP.	1,150,682
DENSON ENG. CORP.	286,837
IMPROVED MACH. INC.	172,506
MPO VIDEOTRONICS	99,065

PERCENT OF TOTAL PAYABLES 71 %
TOTAL $ 3,245,483

TAX STATUS—AS OF

	TOTAL	CURRENT	ARREARS (SEE COMMENTS)
FEDERAL PAYROLL	$	$	$
FEDERAL INCOME			
	CURRENT THROUGH		4/30/71
TOTALS	$	$	$

DOES CLIENT RECEIVE ANY SPECIAL CREDIT TERMS? ☐ NO ☑ YES (EXPLAIN) A/P Supplier paid - 'various' depending on the supplier.

ACCOUNTS PAYABLE	CURRENT VISIT PURCHASES	DATE 4/30/71 PAYABLES	%	PREVIOUS VISIT PURCHASES	DATE 1/31/71 PAYABLES	%
CURRENT MONTH	$ 4,041,408	$ 614,093	14	$	$ 374,668	7
1ST PREVIOUS MONTH	4,243,548	855,159	16		1,134,082	20
2ND PREVIOUS MONTH	3,745,344	1,062,916	20		2,264,026	38
PRIOR MONTHS	▨	2,652,566	50	▨	2,045,437	35
TOTAL	▨	5,195,032	100	▨	5,862,745	100
LESS DEBIT BALANCE	▨	454,645	▨	▨	744,436	▨
NET PAYABLES	▨	$ 4,533,389	▨	▨	$ 5,114,269	▨

NOTES PAYABLE		CURRENT VISIT DATE 3/31/71	PREVIOUS VISIT DATE 12/31/70
TRADE	ACCEPTANCES	$ 264,508	$ 744,499
BANK	SECURED BY CASH COLLATERAL	3,000,000	2,420,000
OFFICERS (INDICATE AMOUNT SUBORDINATED)			
	SUBORDINATED NOTES	2,000,000	2,000,000
	TOTAL	$ 5,264,508	$ 5,164,499

AUDITOR'S REPORT

RECONCILIATION OF LOAN (INCLUDE ALL ADVANCE ACCOUNTS)—

DATE /71

CLIENT	AMOUNT	HUDSHMAN	AMOUNT
GENERAL LEDGER Built-up	$ 16,470,161.65	ACCOUNTING STATEMENT	$ 16,855,552.41
ADVANCE (IN TRANSIT)		COLLECTION (IN TRANSIT)	
DATE DATE RECEIVED		DATE NO. DATE RECEIVED	
See W/papers for details	385,390.76		
/71 TOTAL	$ 16,855,552.41	/71 TOTAL	$ 16,855,552.41

WERE ALL IN TRANSIT ASSIGNMENT SCHEDULES AND COLLECTION REPORTS TRACED TO HUDSHMAN RECORDS? ☐ YES ☐ NO

DEPOSITS PER BANK (LAST TWO MONTHS)

	LAST MONTH DATE 4/30/71	PRIOR MONTH DATE 3/31/71
ADVANCES FROM HUDSHMAN	$ 3,615,000.-	$ 3,400,000.-
UNASSIGNED RECEIVABLES		
CASH SALES		
~~[illegible] COLLECTIONS~~ CASH REC'D ON [illegible] NOT SENT TO [illegible]	128,648.20	
TOTAL PER BANK	$ 3,743,648.20	$ 3,400,000

'UNAUDITED'

WORKING CAPITAL

	THIS AUDIT DATE 3/31/71	LATEST FISCAL DATE 12/31/70
CASH	$ 3,136,600	$ 3,549,800
ACCOUNTS RECEIVABLE	21,769,100	30,198,380
INVENTORY ☐ PHYSICAL ☐ PERPETUAL ☐ OTHER (EXPLAIN)	② 7,442,000	① 6,531,420
PREPAID ITEMS	1,054,000	1,477,300
UNAMORTIZED EXP.	4,447,400	-0-
ADV. TO SUPPLIERS	13,400	24,200
TOTAL	37,859,100	42,766,300
ACCOUNTS PAYABLE - TRADE	6,575,400	11,370,600
NOTES PAYABLE	4,400,000	1,350,000
TAXES PAYABLE	15,000	69,800
BANKS	3,134,500	3,475,500
FNCB-NPD	16,695,000	16,343,000
OTHER - ACCRUALS	1,175,000	1,300,905
TOTAL	33,077,900	33,910,000
NET WORKING CAPITAL	$ 4,581,900	$ 5,861,300

A 3223

AUDIT INSTRUCTIONS

ACCOUNT EXECUTIVE:

[illegible] CONTINUED & W/P # 17 – ① ✓ unissued credits.

N/A – PHYSICAL ENTRY – ⑤ need a new raw material inv.

YEAR – DECEMBER] ② Recheck re dating

SEE W/P # 16 ⌐

SEE W/P # 15 – ④ what report on merchandise in [illegible].

✓ Ⓐ How much went in

ok Ⓑ How much has been shipped to cust.?

F 5/10/71

N/A Ⓒ How much thru returns has been paid?

PROCESSING SECTION:

~~Raw~~ Can you obtain up recent.

Raw material totals <Last rec'd as of 12/31/70 [illegible]>

N/A – LATEST CLIENT HAS ↗

F 5/17/71

COLLATERAL RECONCILIATION SECTION:

A 3224 P. EXH 702
10/05/74 GS

AUDIT REPORTS
DE LUXE TOPPER CORPORATION

I

A 3225

TOPPER CORPORATION
107 Trumbull Street
Elizabeth, New Jersey

		DATE
TJB		8/12/74
ACCT. RATG.		8/13/74
A. LUCK		8/17
~~R. [illegible]~~		
K. JOHNSON		8/15
[illegible]		
AUDITOR		8/19

A 3226

Topper Corporation
Audit Comments
8/9/71

Accounts Receivable

Sales for the year ending 6/30/71 were $79 MM compared to $65 MM, same period last year, or an increase of $14. Deductions went up from 7.0% to 14.6%, same period of comparison, mainly due to advertising and promotional allowances; turnover went up because of datings.

Collateral account as at 6/30/71 was reconciled against the aging and general ledger balances. Against the aging of $33.604 MM, the balance of $33.538 MM adjusted as to in-transit items and deductions, shows a shortage of only $.66 M. Against the general ledger, however, the collateral balance shows an overage in excess of $1.2 MM, representing write-off of credit balances from the detailed aging, effecting an increase thereof, but which amount had never been reflected in client's general ledger. The account executive was informed of this difference. (per Mott) set up as a reserve for credits.

The total deductions and repayment of $.636 M for the month of June/71 had been reviewed and found in order.

The most current available list of rebating totaling $2.2 MM had already been checked in prior audit. Of the total rebating adjustment of $319 M, for June/71,

Topper - Page 2

$219 M belonged to the 90-day category, and the balance $10 M consisted of various debit memos.

July/71 aging is not yet available at time of cover. I understand Mr. Obolsky is preparing a new list of aging which he will forward us.

Client's collection procedure appears to be consistent with prior months. Client's follow-ups on big balances are done mostly by phone calls and on smaller balances, by letters as often as needed.

Accounts Payable

Aging of payables was done as at 6/30/71, most current available run, by invoice dates. Checks held totalling $1.7 mm as payment June/71 and prior bills were also aged and added back to payables. Payables are delinquent in that $1.56 mm or 35% of the total outstanding of $4.50 mm aged, are past due. The supervisor said that in most cases, checks are held for price disputes; however, the bookkeeper in charge of cash disbursements said they simply don't have funds.

Approximately $110 M of checks are also being held at time of visit representing payments of July/71 invoices.

Financial

The increase in net working capital of $3.51 mm

A 3228

Topper - Page 3

(12/31/70 vs. 6/30/71) is accounted for, as far as can be determined, as follows:

Sale of stocks - May & June/71	-	$6.401 MM
Income for 6 months to 6/30/71	-	559
N/P due 1/31/72, now current	-	(3.550)
Unaccounted for	-	372
		$3.512 MM

For the month of June/71, company made a profit of $1.252 MM before provision for income taxes of $596 responsible for offsetting the accumulated loss of $653 M. for 5 months to 5/31/71.

Others

New York terminal merchandise report (schedule 13) shows a total of $7.083 MM as at 6/30/71, of which $1.552 MM went in and $505 M has been shipped to customers.

A new wholly owned subsidiary of Topper Corporation, Educational Toys, Inc., was mentioned to be audited by the Chief Accountant. I understand the subsidiary will have its own set of books.

Subordinated indebtedness as of 6/30/71 went down to $3.550 MM representing note due 1/31/72, against $5.2 MM last audit, the $1.350 M balance was matured paid 6/30/71.

Of the total Loans & Brokerage balance of $52 M. as

A 3229

[illegible] - page 2

of 6/30/71, $15.00 is due ~~to~~ FROM officers, $25.00 ~~to~~ FROM employees with balances of $144 and over, and the balance of $800 to various employees in smaller amounts.

The [illegible] was on the premises during my visit auditing 1967-69 tax returns of our client.

A 3230

[illegible] REV. 2 69

AUDITOR'S REPORT

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPT.

PAGE

AUDITOR'S NAME: JOSE L. CURA

CLIENT'S NAME AND ADDRESS:
TOPPER CORPORATION
ELIZABETH, NEW JERSEY

DATE STARTED: 7/30/71
DATE COMPLETED: 8/6/71
DATE PREVIOUS AUDIT COMPL'D: 5/14/71

ACCOUNTS RECEIVABLE OPERATION	☐ DETAIL ☑ CONTROL	☑ INVOICES SUBMITTED ☑ SHIPPING EVIDENCE	☐ NOTIFICATION ☑ NON NOTIFICATION	COLLECTIONS: ☑ IN KIND ☐ BLOCKED ACCO
CLIENTS MONTHLY REPORTING	DETAIL AGING: ☑ YES ☐ NO	MICROFILM OF RECEIVABLES: ☐ YES ☑ NO	DATE OF LAST MICROFILM: —	CUSTOMER STATEMENTS (COMPLETE BALANCE): ☑ YES ☐ NO
	OTHER			
CLIENTS RECEIVABLE RECORDS	☐ MACHINE POSTED	☐ HAND POSTED	☐ OPEN INVOICE	☐ OTHER (INDICATE) I.B.M.
	DATE POSTED THROUGH:	SALES: FINISHING 7/31/71	CREDITS	CASH	CONDITION OF RECORDS: ☑ SATISFACTORY ☐ UNSATISFACTO (SEE COMMENTS)
DETAIL RECEIVABLES PROVED TO CLIENT CONTROL AS OF:	DATE: N/A	TEST OF CLIENT AGING	AGING DATE: 6/30/71	BALANCE PER AGING: $33,604,999.76	NO. OF ACCOUNTS: APPROX. 520	TESTED: 20

NAME(S) OF CUSTODIAN

WERE INVOICES WITH RECEIPTS TEST CHECKED AGAINST CLIENTS SHIPPING RECORDS FOR DATES & UNITS SHIPPED? ☑ NO ☐ YES (IF YES, INDICATE DOLLAR AMOUNT AND REPORT ANY DIFFERENCES)

RECONCILIATION OF ASSIGNED RECEIVABLES — DATE 6/30/71

CLIENT		HUBSHMAN	
GENERAL LEDGER AGING	$ 33,604,999.76	ACCOUNTING STATEMENT 663-667	$ 29,663,136.
INTRANSIT COLLECTION REPORTS		INTRANSIT ASSIGNMENT SCHEDULE	
DATE NO. DATE RECEIVED		DATE NO. DATE RECEIVED	
		SEE DETAILS IN W/P H-6	
		Adj. - per A/C 667 & 666	4,019,605.16
		Credits - " " 667	<159,879.03
		DEDUCTIONS - DETAIL 6/30/71	<30,932.45
		6/30/71	<1,976.69>
		FNCA. SHORT <ADJUSTED BY	
		RECC. #635 - 7/16/71>	706,756.5
UNASSIGNED RECEIVABLES (ATTACH LIST)		ADJUSTMENT SHEETS	
TOTAL	$ 33,604,999.76	TOTAL	$ 33,604,995.

IS CLIENTS ACCOUNTS RECEIVABLE DETAIL IN AGREEMENT WITH GENERAL LEDGER? <SEE COMMENTS> ☐ YES ☐ NO (INDICATE DIFFERENCES) ☐ UNDER ☐ OVER $

IS CLIENT PROMPTLY ISSUING CREDIT MEMOS? ☑ YES ☐ NO

ARE ALL ISSUED CREDIT MEMOS PROMPTLY REPORTED? ☑ YES ☐ NO (SEE COMMENTS)

A 3231

AUDITOR'S REPORT

PAGE

- COMBINED -

CONCENTRATION (ALL ACCOUNTS OVER $25,000 OR 5 LARGEST) NAME	TOTAL
BLATT DIST. CO.	$ 1,242,145
TIME SQUARE STORES	1,204,543
TIE VEE TOYS, INC.	1,198,557
KORVETTE	1,156,137
LIONEL LEISURE, INC.	1,154,653
<71 OTHER A/CS - $100M.	
& OVER - SEE SCHEDULE II>	23,283,551
INDICATE % OF TOTAL COLLATERAL THIS TOTAL REPRESENTS 87 %	29,190,496

STATUS OF ACCOUNT		AS OF (DATE) 5/6/71
GROSS COLLATERAL		$ 33,563,663
- INELIGIBLE	$ 5,900,340	
- PAST DUE	3,539,752	
EQUITY - 20%	4,297,045	
20% in 000 -	1,000,152	14,909,323
NET COLLATERAL AVAILABLE ON ACCOUNTS RECEIVABLE		18,654,340
+ AVAILABLE (OTHER COLLATERAL)		— 0 —
TOTAL		18,654,340
- LOAN AMOUNT		19,704,198
AVAILABILITY		<1,049,858>

SALES COMPARISON—OMIT CENTS (FROM CLIENT RECORDS)

PERIOD	DATE TO 6/30/71 CURRENT YEAR SALES	CREDITS	COLLECTIONS	DATE TO 6/30/70 PRIOR YEAR SALES	CREDITS	COLLECTIONS
3 MONTHS	$ 16,216,700	$ 3,502,500	$ 7,500,400	$ 16,717,900	$ 1,517,800	$ 3,524,700
6 MONTHS	22,039,600	6,137,600	21,222,200	15,051,000	3,315,600	16,566,600
9 MONTHS	57,641,700	9,289,300	46,730,100	45,457,700	4,071,100	35,676,600
12 MONTHS	79,035,900	11,507,500	54,621,400	65,143,700	4,547,700	50,677,700

DILUTIONS - 14.6% 7.0%

RECEIVABLE TURNOVER (DAYS-MONTHS)

MONTH	CURRENT YEAR	PRIOR YEAR
1971 JUNE	379	276
MAY	348	245
APRIL	245	333
MARCH	639	300
AVERAGE	402	254
YEAR	222	165

ORDERS ON HAND:	AMOUNT	DATE
	N/A	

IS CLIENTS RECEIVABLE DETAIL STAMPED TO SHOW ASSIGNMENT? ☐ YES ☑ NO (EXPLAIN)

RECEIVABLE AGING—PAST DUE DAYS 90 DAYS

DATE AGED	6/30/71		4/30/71	
CURRENT	16,605,900	50	19,574,954	72
1-30	573,500	3	340,142	1
31-60	6,652,100	20	145,400	–
61-90	1,265,600	4	2,694,710	10
OVER 90	2,453,900	7	2,574,555	10
DETAIL CURRENT	215,400	–	57,337	–
UNACCEPTABLE	5,412,100	16	2,000,954	7
TOTAL	33,685,000	100%	27,537,694	100
CREDIT BALANCE	—		33,0[illegible]	
NET RECEIVABLES	[illegible]		[illegible]	
TERMS OF SALE:	VARIOUS - WITH DATINGS			

A 3232

AUDITOR'S REPORT

PAGE

CONTRA OR OFFSETS (USE SCHEDULE IF NECESSARY) ADJUSTED? ☐ YES – $ ________ ☐ NO (SEE COMMENTS)

CUSTOMER	AS OF DATE	RECEIVABLE	PAYABLE
NONE FOUND AS AT 6/30/71			

ARE ALL CONFIRMATION EXCEPTIONS SATISFACTORILY RESOLVED AND NO REPLIES ETC. FOLLOWED-UP? ☐ YES ☑ NO (SEE COMMENTS) NOTHING GIVEN THIS AUDIT

SOURCE OF INFORMATION USED FOR CONFIRMATION

☐ CUSTOMER STATEMENT ☐ DETAIL ☑ CLIENT AGING ☐ MICROFILM ☐ OTHER

CLIENTS GENERAL BOOKS	POSTED TO 6/30/71	CONDITION? ☑ SATISFACTORY ☐ UNSATISFACTORY (SEE COMMENTS)	
EXCHANGE AND SUSPENSE A/C'S	PERIOD COVERED to 6/30/71	ANALYZED? ☑ YES ☐ NO TOTAL AMOUNT $ 42,477.49	DUE FROM OFFICERS $ 15,165.24 See
SUBORDINATED INDEBTEDNESS	NAME(S) N/P due 1/31/72 MAINTAINED? ☑ YES ☐ NO	IF NO, PRESENT AMOUNT	AMOUNT $ 3,800 INDICATE AMOUNT OF OFFSET $

ARE THE GENERAL LEDGER COLLATERAL AND LOAN LIABILITY ACCOUNTS PROPERLY NOTED TO REFLECT THE ASSIGNMENT TO US? ☐ YES ☑ NO (EXPLAIN)

WAS THE PLANT, WAREHOUSE, ETC. INSPECTED AND VISITED? ☐ YES ☑ NO (EXPLAIN)

ATTACH COMMENT OF ANYTHING UNUSUAL, INCLUDING NEW PRODUCTS, IDLE EQUIPMENT, ETC.

DATE OF LAST FINANCIAL STATEMENT 12/31/70	ANY MATERIAL ITEM ON STATEMENT AND NOT REFLECTED ON BOOKS? ☐ YES (SEE COMMENTS) ☐ NO	CHECKED TO BOOKS BY AUDITOR? ☐ YES ☐ NO (SEE COMMENTS)

<THEIR AUDIT>

COMMENT ON THE STATUS OF OTHER COLLATERAL (INVENTORY, EQUIPMENT, EXAMINED AS TO CONDITION, INSURANCE ETC.

A 3233

PAGE

AUDITOR'S REPORT

PAYABLE CONCENTRATION
ALL ACCOUNTS OVER $25,000 (IN FIVE (5) LARGEST

NAME	TOTAL
DANCER - FITZGERALD	$ 4,210,527
GRIES REPRODUCER CORP.	529,307
IMPELLER MACH. INC.	164,645
POLYMER MATERIALS, INC.	131,363
MPC VIDEOTRONICS	67,564

PERCENT OF TOTAL PAYABLES 60 %

TOTAL $ 2,523,476

TAX STATUS—AS OF

	TOTAL	CURRENT	ARREARS (SEE COMMENTS)
FEDERAL PAYROLL	$	$	$
FEDERAL INCOME			
TOTALS	$	$	$

ALL TAXES CURRENT TO 7/31/71
<PAYROLL TAXES FOR LAST WEEK OF JUNE/71 FOR $2,340 PAID 7/2/71>.

DOES CLIENT RECEIVE ANY SPECIAL CREDIT TERMS? ☐ NO ☑ YES (EXPLAIN)

ACCOUNTS PAYABLE	CURRENT VISIT PURCHASES	DATE 6/30/71 PAYABLES	%	PREVIOUS VISIT PURCHASES	DATE 4/30/71 PAYABLES	%
CURRENT MONTH	$ 4,952,900	$ 1,401,424	29	$ 4,011,405	$ 612,093	12
1ST PREVIOUS MONTH	4,672,900	1,054,792	21	2,243,058	555,159	16
2ND PREVIOUS MONTH	4,011,400	587,616	12	3,705,322	1,004,916	20
PRIOR MONTHS		1,560,549	38		2,652,566	52
TOTAL		4,904,711	100		5,195,034	100
NOT AGED LESS DEBIT BALANCE		70,634 <721,363>			534,645	
NET PAYABLES		$ 4,253,952			$ 4,603,359	

NOTES PAYABLE	CURRENT VISIT DATE 6/30/71	PREVIOUS VISIT DATE 3/31/71
TRADE ACCEPTANCES	$ 365,659.73	$ 262,555.0
BANK SECURED BY CASH COLLATERAL	1,750,000.00	3,000,000.0
OFFICERS (INDICATE AMOUNT SUBORDINATED)		
SUBORDINATED NOTES	3,850,000.00	5,500,000.0
TOTAL	$ 5,965,659.73	$ 8,762,555.0

A 3234

AUDITOR'S REPORT 3 1 PAGE

RECONCILIATION OF LOAN (INCLUDE ALL ADVANCE ACCOUNTS)—			DATE 6/30/71
CLIENT	AMOUNT	HURSHMAN	AMOUNT
GENERAL LEDGER	$ 15,191,547.34	ACCOUNTING STATEMENT	$ 15,299,292.26
ADVANCE (IN TRANSIT)		COLLECTION (IN TRANSIT)	
DATE DATE RECEIVED		DATE NO. DATE RECEIVED	
FINANCE CHARGE - [illegible]/71	121,520.05	DOUBLE CREDIT BY BANK-	
		8/18/70 & 9/10/70 -	
		TRANSFER FROM HONGKONG	
		OFFICE (SEE RECON-	
		? CILIATION - W/P H 6)	13,775.13
		0 This is incorrect	
TOTAL	$ 15,313,067.39	TOTAL	$ 15,313,067.3

WERE ALL IN TRANSIT ASSIGNMENT SCHEDULES AND COLLECTION REPORTS TRACED TO HURSHMAN RECORDS? ☑ YES ☐ NO

- CONSOLIDATED -

DEPOSITS PER BANK (LAST TWO MONTHS)	LAST MONTH DATE 6/30/71	PRIOR MONTH DATE 5/31/71
ADVANCES FROM HURSHMAN	$ 6,450,000.00	$ 5,900,000.00
UNASSIGNED RECEIVABLES		
CASH SALES		
L/C's - Mfg. Hon-	555,730.55	193,766.43
sale of stocks	20,000.00	6,361,571.50
TOTAL PER BANK	$ 7,026,130.55	$ 12,4[illegible].73

WORKING CAPITAL	THIS AUDIT DATE 6/30/71	LATEST FISCAL DATE 12/31/7
CASH	$ 2,275,300	$ 3,579,80
ACCOUNTS RECEIVABLE	25,741,000	30,195,30
INVENTORY: ☐ PHYSICAL ☐ PERPETUAL ☐ OTHER (EXPLAIN)	8,[illegible]20,100	① 6,631,50
PREPAID ITEMS	727,700	1,522,3
UNABSORBED EXP. ADVANCES - SUPPLIERS	2,517,300 12,300	24,40
TOTAL	42,8[illegible]3,700	42,[illegible]66,30
ACCOUNTS PAYABLE	6,455,300	12,112,10
NOTES PAYABLE	3,500,000	1,300,00
TAXES PAYABLE	79,100	69,5
BANKS FNCB - HFD	2,115,700 15,156,000	3,475,5 16,343,00
OTHER - ACCRUALS	1,137,500	1,360,90
TOTAL	31,776,000	[illegible]
NET WORKING CAPITAL	$ 11,067,100	$ 7,[illegible]5,00

A 3235

AUDIT INSTRUCTIONS

PAGE

ACCOUNT EXECUTIVE:

① WAS ADVISED BY JIM DILLON TO GO TO TOPPER
AS SCHEDULED - July 30/71 but [illegible] [illegible]
[illegible] on Aug. 2/71 for special items
to [illegible] checks, if any.
② CALLED MR. SIEGEL 8/4/71 (10:30 A.M.) AND HE
TOLD ME ABOUT CLIENT'S PAST DUE A/Cs AND
COLLECTIONS: IF ANYTHING CAN BE CHECKED ON THERE.
(No Comments) J 8/4/71

PROCESSING SECTION:

COLLATERAL RECONCILIATION SECTION:

A 3236 P. EXH 703

10/25/74
55

Toffy, Corp.

Ernie —

1) Turnover slowdown could be serious
2) Past dues of 8.3% at this time of year is also serious
3) Good to see our loan down

11/29/71

A 3237

TOPPER CORPORATION

AUDIT COMMENTS

11/24/71

ACCOUNTS RECEIVABLE

Sales for the period ending 10/31/71 totalled $ 7[illegible] mm compared to $ 6[illegible] last year, or an increase of $ 10 [illegible] mm. Dilutions increased from 10.2% to 13.2%, same period of comparison, due to advertising and promotional allowances and turnover went up because of ratings. Dilution is much higher due to rebilling of transfers from one customer to another.

Analysis of Sept and Oct/71 cash receipts revealed the following collections (sight drafts) deposited to the Mfg. Hanover Bank, viz:

	Sept/71	Oct/71
Irwin Toys	$ 8.2 m	$ 45.1 m
American Leisure	35.5	30.0
Jones [illegible]	13.5	-0-
Les Jouets	-0-	24.1
Zannelli	-0-	10.3
Yonk Corp	9.5	.7
	$ 69.7	$ 137.9

These are drafts payable at Mfg. Han. sight

Account Executive was informed of the above. The client, through Mr. Olcosky, took exception on Irwin Toys account. The collections on Irwin Toys represented proceeds on L/C # 14165 - Canadian Imperial Bank

Supp. Page 2

of Commerce, of which the Account Executive knew about.

Past due increased by $13.2 mm (6/30/71 of $3.8 mm vs. 10/31/71 of $17.0 mm). The reason client gave was because of ratings between the period July–Oct/71 and the invoices due, however, were not paid and fell under the 90-day category. Account Executive is also aware of this big increase. Client is following up on delinquent accounts mostly by phone.

The total deductions (overpayment) of $700 M for the month of Oct/71 had been reviewed [illegible] and found to be in order. ?

who last year / what was paid? [illegible] US!

No reconciling as at 10/31/71 is in the picture. The Accounts Receivable Manager, however, stated that they are presently making a new set of re-dating.

Unreported credits were checked during the audit and had accounted for a total of $192 M which were reported on 11/18/71 for $132 M and $60 M on 11/19/71. In the afternoon of the last day of audit, 11/19/71, pending credits were again checked and accounted for about $62 M, which information was also transmitted to the Account Executive.

Mr. [illegible] further stated that he estimated the unreported returns, after their last credit schedule # 592-D for $72 M and including the $62 M [illegible] page 3

Conventional period, to be around $100M per mo. That would then leave $63M worth of returns still unprocessed and not available to the auditor.

The actual returns reported for the last 4 months (July - Oct/71) based on credit schedule average $373M. Returns for this month to audit date already totalled about $500M. The reason for this increase was attributable to the fact that client speeded up processing of credits per our request with the goal in view of clearing them up and not that they have more returns in Nov/71.

Receivable balance as at 10/31/71 was reconciled against client's aging and general ledger balance. The shortage against the aging of $1.3 mm has been debited by Proc. Dept. on 11/5/71. This is substantially accounted for by $700M Oct/71 deductions and $75M ($700M adjusted by Proc. on 11/5/71) deductions included in client's Oct/71 aging but appear in their Cr. report up to Nov 5/71. This $75M should not, of course, be debited back to the account this month giving as a reminder to Processing Dept. The difference of our records against client's general ledger balance, however, shows a shortage of $795 M (see schedule 7-1). The client's aging and general ledger balance were also reconciled (schedule 7-1) and shows the aging

A 3240

[illegible] - page 4

[illegible] the general ledger balance by $540M, accounted for as follows:

Write-offs not in P/L -	$1.205 mm
Various adjustments -	<.665>
	$.540 mm

The $1.205 mm has already been noted in prior audit in that there were various credit balances removed from the detailed aging but was ignored in the general ledger. Client stated that they set up a reserve for it but the auditor did not find any to that effect. Since client ignored the write-off increasing their P/L balance, they are, in effect in my opinion, indirectly reserving for it.

Accounts Payable

Aging was done by invoice date only on accounts with balances of $500 and over. Checks held as at 11/17/71 totalling $973 M paying Oct/71 and prior bills were also aged and added back to payables. Past due stood at $1.2 mm or 38% of total outstanding. June 30/71 aging also showed 35% or $1.6 mm past due.

The increase in notes payable of $11.5 mm (6/30/71 of $5.9 mm vs. 10/31/71 of $17.4 mm) is analyzed as follows:

Long term borrowing - $12.0 mm

L/C's Acceptances ...

A 3241

[illegible] page 5

Reduction of [illegible] deposit - Fidelity <.6>
- Mfg. Han <.5>
$11.5

The $12.3 MM consists of notes due on 12/76 for $7 MM (Ford) and notes due 9/86 (various institutions) of $5.3 M. These were then used to reduce their loan balance to us in Sept/71. The notes secured by cash on Fidelity and Mfg. have been reduced to $500 M and $500 M, respectively but subject to further review by our client.

Taxes are current. Payroll taxes were paid up to week ending 11/13/71. The $1.463 MM accrued for Federal Income Tax appearing on the Trial Balance of 10/31/71 is for Topper Corporation only. Going forward, this figure is brought down to $367 M taking a consolidated figure of all subsidiaries and represents unreversed accruals of last year. The Chief Accountant stated that this would remain in the books as a cushion for whatever disallowances, if any, the IRS would have on their 1970 tax returns.

The subordinated notes consist of those due [illegible] for $3.5 MM and those due on 9/86 for $5.3 M. (mentioned earlier).

Financial

Working capital increased by $15.5 MM <12/71.

A 3242

Topps - page 6

vs. 9/30/71) and accounted for as follows:

Sale of stocks -	$ 6.4 MM
Income to 9/30/71 -	2.8
Long term borrowings -	12.3
N/P due 1/72, now current -	(3.8)
Depreciation -	.7
Not accounted for -	.4
	$ 18.8 MM

Oct/71 trial balance could not be used as basis for working capital because it is not yet a final run. This trial balance (third run) is the most current available at time of audit. I understand they do as many as 6 runs before they obtain an adjusted trial balance which they can use for financial statement purposes.

Other

New York Terminal Warehouse report (P.L. #12) shows an outstanding over-all total of $6.763 MM as at 10/31/71, after shipments of $2.031 MM had been made to that period.

[illegible] Toys, Inc, a new subsidiary of Topps Corporation, has been in operation since Sept/71.

Loans and Exchange account as of 10/31/71

Jeffer - page 7

claims $9.9 m due from Officers and the balance of $29.4 m from various employees, making an outstanding total of $39.3 m.

The auditor would like to mention in passing that the Oct/71 A/R statistical figures were based on the most current available sources. The A/R balance of $39.5 mm based on trial balance <#3> has however been tied in to client's summary of journal entries and various journals to 10/31/71. Since as stated earlier the accounting department makes as many as 6 runs, the figure obtainable could change. So far as can be determined and from discussion with the Chief Accountant adjustments to come, if any, would only be reversing entries affecting other accounts in the general ledger.

During my visit, senior accountants < from Arthur Young > were on the premises auditing Oct/71 figures. Two auditors from client's own Audit staff were also on the premises on some special projects.

AUDITOR'S REPORT

FIRST NATIONAL CITY BANK A 3244

FACTORING AND COMMERCIAL FINANCE DEPT.

PAG

AUDITORS NAME: JOSE L. CURA

CLIENT'S NAME AND ADDRESS:
TOPPER CORPORATION
ELIZABETH, NEW JERSEY

DATE STARTED: [illegible]/15/71

DATE COMPLETED: 11/19/71

DATE PREVIOUS AUDIT COMPLTD: 5/6/71

ACCOUNTS RECEIVABLE OPERATION
☐ DETAIL ☑ CONTROL ☑ INVOICES SUBMITTED ☑ SHIPPING EVIDENCE ☐ NOTIFICATION ☑ NON-NOTIFICATION

COLLECTIONS ☑ IN KIND ☐ BLOCKED ACCO

CLIENTS MONTHLY REPORTING
DETAIL AGING? ☑ YES ☐ NO
MICROFILM OF RECEIVABLES? ☐ YES ☑ NO
DATE OF LAST MICROFILM: ——
CUSTOMER STATEMENTS (COMPLETE RANGE) ☑ YES ☐ NO
OTHER:

CLIENTS RECEIVABLE RECORDS
☐ MACHINE POSTED ☐ HAND POSTED ☐ OPEN INVOICE ☐ OTHER (INDICATE) IBM
DATE POSTED THROUGH: SALES 10/31/71 CREDITS 10/31/71 CASH 10/31/71
CONDITION OF RECORDS: ☑ SATISFACTORY ☐ UNSATISFACTO (SEE COMMENTS)

DETAIL RECEIVABLES PROVED TO CLIENT CONTROL AS OF: DATE N/A

TEST OF CLIENT AGING AGING DATE 10/31/71 BALANCE PER AGING $ 40,074,[illegible].32 NO. OF ACCOUNTS APPROX. 550 TESTED 45

NAME(S) OF CUSTODIAN

WERE INVOICES WITH RECEIPTS TEST CHECKED AGAINST CLIENTS SHIPPING RECORDS FOR DATES & UNITS SHIPPED? ☑ NO ☐ YES (IF YES, INDICATE DOLLAR AMOUNT AND REPORT ANY DIFFERENCES)

RECONCILIATION OF ASSIGNED RECEIVABLES — DATE 10/31/71

CLIENT		HUBSHMAN	
~~GENERAL LEDGER~~ AGING	$ 40,074,[illegible].32	ACCOUNTING STATEMENT 663-665	$ 39,[illegible]
INTRANSIT COLLECTION REPORTS		INTRANSIT ASSIGNMENT SCHEDULE	
DATE NO. DATE RECEIVED		DATE NO. DATE RECEIVED	
		Per W/P # 7 for details:	
		Sales - in transit	1,366,95[illegible]
		Cash - "	<[illegible]>
		[illegible]	<[illegible]>
		[illegible] BY PROCESSING	<700,93[illegible]>
		[illegible]	
		[illegible] - [illegible]/71>	1,335,95[illegible]
UNASSIGNED RECEIVABLES (ATTACH LIST)		ADJUSTMENT SHEETS	
TOTAL	$ 40,074,[illegible]	TOTAL	$ 40,07[illegible]

IS CLIENTS ACCOUNTS RECEIVABLE DETAIL IN AGREEMENT WITH GENERAL LEDGER? As reconciled - see W/P # 7-A
☑ YES ☐ NO (INDICATE DIFFERENCE) ☐ UNDER ☐ OVER $ ——

IS CLIENT PROMPTLY ISSUING CREDIT MEMOS? ☑ YES ☐ NO

ARE ALL ISSUED CREDIT MEMOS PROMPTLY REPORTED? ☐ YES ☑ NO (SEE COMMENTS)

A 3245

AUDITOR'S REPORT

PAGE

CONCENTRATION (ALL ACCOUNTS OVER $25,000 OR 5 LARGEST) NAME	TOTAL
LIONEL LEISURE, INC.	$ 2,358,713
KORVETTE	2,664,879
S.S. KRESGE INC.	2,003,[illegible]
BLATT DIST. CO.	1,951,815
TIMES SQUARE STORES	1,656,082
263 OTHER ACCOUNTS -	
[illegible] & OVER IN	
SCHEDULE #11	26,067,249
INDICATE % OF TOTAL COLLATERAL THIS TOTAL REPRESENTS 90 %	36,135,522

STATUS OF ACCOUNT		AS OF (DATE) 11/5/71
GROSS COLLATERAL		$ 37,738,077
- INELIGIBLE	$ 88,105	
- PAST DUE	16,756,067	
90-EQUITY -	3,557,871	
91-AGES	2,331,812	~~[illegible]~~
NET COLLATERAL AVAILABLE ON ACCOUNTS RECEIVABLE		15,049,412
+ AVAILABLE (OTHER COLLATERAL)		—.—
TOTAL		15,049,412
- LOAN AMOUNT		10,933,735
AVAILABILITY		4,115,677

Less FVACC (7000.000)

SALES COMPARISON—OMIT CENTS (FROM CLIENT RECORDS)

PERIOD	CURRENT YEAR DATE 10/31/71 SALES	CREDITS	COLLECTIONS	PRIOR YEAR DATE 10/31/70 SALES	CREDITS	COLLECTIONS
3 MONTHS	$ 21,082,400	$ 1,142,000	$ 13,606,800	$ 22,476,000	$ 2,253,600	$ 15,186,000
6 MONTHS	37,416,400	4,274,400	30,936,600	41,534,200	3,612,200	28,960,000
9 MONTHS	46,406,200	6,571,500	36,533,300	46,146,800	5,185,000	36,315,400
12 MONTHS	74,552,100	9,960,000	51,194,400	65,000,400	6,757,200	52,883,700

DILUTIONS - 13.3% 10.4%

RECEIVABLE TURNOVER (DAYS-MONTHS)

MONTH	CURRENT YEAR	PRIOR YEAR
1971 OCT.	242	148
SEPT.	231	118
AUG.	263	176
JULY	353	154
AVERAGE	272	144
[illegible]	215	120

ORDERS ON HAND: AMOUNT DATE N/A

IS CLIENTS RECEIVABLE DETAIL STAMPED TO SHOW ASSIGNMENT? ☐ YES ☑ NO (EXPLAIN)

RECEIVABLE AGING—PAST DUE DAYS 90 DAYS

DATE AGED	10/31/71		6/30/71	
CURRENT	15,165,367	35	16,647,481	48
1-30	5,945,835	13	570,526	2
31-60	2,429,645	6	6,648,166	20
61-90	13,744,681	32	1,863,580	6
OVER 90	4,812,865	11	2,258,756	7
INITIAL CURRENT	—.—		716,780	—
UNACCEPTABLE	52,837	—	5,410,180	16
TOTAL	40,474,236	100%	33,[illegible]	100%
CREDIT BALANCE	—.—		—.—	
NET RECEIVABLES	40,[illegible]		33,[illegible]	
TERMS OF SALE	- VARIOUS - & DATINGS			

AUDITOR'S REPORT

A 3246

CONTRA OR OFFSETS (USE SCHEDULE IF NECESSARY) ADJUSTED? ☐ YES—$ ________ ☐ NO (SEE COMMENTS)

CUSTOMER	AS OF DATE	RECEIVABLE		PAYABLE
NONE NOTED.	10/31/71			

ARE ALL CONFIRMATION EXCEPTIONS SATISFACTORILY RESOLVED AND NO REPLIES ETC. FOLLOWED-UP? ☑ YES ☐ NO (SEE COMMENTS)

SOURCE OF INFORMATION USED FOR CONFIRMATION

☐ CUSTOMER STATEMENT ☐ DETAIL ☑ CLIENT AGING ☐ MICROFILM ☐ OTHER

CLIENTS GENERAL BOOKS	POSTED TO 10/31/71	CONDITION? ☑ SATISFACTORY	☐ UNSATISFACTORY (SEE COMMENTS)	
EXCHANGE AND SUSPENSE A/C'S	PERIOD COVERED TO 10/31/71	ANALYZED? ☑ YES ☐ NO	TOTAL AMOUNT $ 39.4M	DUE FROM OFFICER'S $ 9.9 M
SUBORDINATED INDEBTEDNESS	NAME(S) NOTES DUE 1/72 - $ 3.8 & 5/80 $ 4.3 mm.			AMOUNT $ 9.1 MM
	MAINTAINED? ☑ YES ☐ NO	IF NO, PRESENT AMOUNT —		INDICATE AMOUNT OF OFFSET $ —

ARE THE GENERAL LEDGER COLLATERAL AND LOAN LIABILITY ACCOUNTS PROPERLY NOTED TO REFLECT THE ASSIGNMENT TO US? ☐ YES ☑ NO (EXPLAIN)

WAS THE PLANT, WAREHOUSE, ETC. INSPECTED AND VISITED? ☐ YES ☑ NO (EXPLAIN)

ATTACH COMMENT OF ANYTHING UNUSUAL, INCLUDING NEW PRODUCTS, IDLE EQUIPMENT, ETC.

DATE OF LAST FINANCIAL STATEMENT 12/31/70	ANY MATERIAL ITEM ON STATEMENT AND NOT REFLECTED ON BOOKS? ☐ YES (SEE COMMENTS) ☐ NO	CHECKED TO BOOKS BY AUDITOR? ☐ YES ☐ NO (SEE COMMENTS

(PRIOR AUDIT)

COMMENT ON THE STATUS OF OTHER COLLATERAL (INVENTORY, EQUIPMENT) (CLAIMED AS TO CONDITION, INSURANCE ETC.

A 3247

PAGE

AUDITOR'S REPORT

PAYABLE CONCENTRATION
ALL ACCOUNTS OVER $25,000 OR FIVE (5) LARGEST

NAME	TOTAL
[illegible] -FITZGERALD	$ [illegible]
GRIES REPRODUCER CORP.	585,900
[illegible] F.&D. CORP.	144,900
IMPACTED MACH. INC.	143,181
POLYMER MATERIALS INC.	110,355

PERCENT OF TOTAL PAYABLES 82 %

TOTAL $ 3,151,033

TAX STATUS—AS OF 10/31/71

	TOTAL	CURRENT	PAST DUE (SEE COMMENTS)
FEDERAL PAYROLL	$	$ Current	$
FEDERAL INCOME	[illegible]	[illegible]	
	[illegible]	[illegible]	
	[illegible]	[illegible] 11/13/71.	
TOTALS	$	$	$

DOES CLIENT RECEIVE ANY SPECIAL CREDIT TERMS? ☐ NO ☑ YES (EXPLAIN)

ACCOUNTS PAYABLE

ACCOUNTS PAYABLE	CURRENT VISIT PURCHASES	DATE 10/31/71 PAYABLES	%	PREVIOUS VISIT PURCHASES	DATE 6/30/71 PAYABLES	%
CURRENT MONTH	$ 6,825,900	$ 1,260,575	33	$ 4,952,900	$ 1,401,[illegible]	27
1ST PREVIOUS MONTH	5,196,900	605,417	15	4,672,900	1,044,935	21
2ND PREVIOUS MONTH	4,619,700	534,073	14	4,011,200	557,616	15
PRIOR MONTHS	▨	1,[illegible],065	38	▨	1,565,529	35
TOTAL	▨	3,576,211	100	▨	[illegible]	100
NOT AGED LESS DEBIT BALANCE	▨	117,501 <915,311>	▨	▨	75,634 <704,313>	▨
NET PAYABLES	▨	$ 3,672,650	▨	▨	$ 4,553,558	▨

NOTES PAYABLE

NOTES PAYABLE	CURRENT VISIT DATE 10/31/71	PREVIOUS VISIT DATE 6/30/71
TRADE ACCEPTANCES	$ 737,114.92	$ 965,657.73
BANK SECURED BY CASH COLLATERAL	650,000.00	1,150,000.00
OFFICERS (INDICATE AMOUNT SUBORDINATED)		
SUBORDINATED NOTES	3,250,000.00	3,850,000.00
NOTES DUE 12/76 ([illegible])	7,000,000.00	
NOTES DUE 9/86 ([illegible])	5,820,000.00	
TOTAL	$ 17,457,114.92	$ 5,965,657.73

AUDITOR'S REPORT

A 3248

RECONCILIATION OF LOAN (INCLUDE ALL ADVANCE ACCOUNTS)—			DATE 10/31/71
CLIENT	AMOUNT	HUBSHMAN	AMOUNT
GENERAL LEDGER	$ 9,785,080.08	ACCOUNTING STATEMENT	$ 9,873,363.96
ADVANCE (IN TRANSIT)		COLLECTION (IN TRANSIT)	
DATE DATE RECEIVED		DATE NO. DATE RECEIVED	
Oct/71 Finance Charge	76,616.82		
Service Charge	11,666.06		
TOTAL	$ 9,873,363.96	TOTAL	$ 9,873,363.96

WERE ALL IN TRANSIT ASSIGNMENT SCHEDULES AND COLLECTION REPORTS TRACED TO HUBSHMAN RECORDS? ☑ YES ☐ NO

DEPOSITS PER BANK (LAST TWO MONTHS)		
	LAST MONTH DATE Oct/71	PRIOR MONTH DATE Sept/71
ADVANCES FROM HUBSHMAN	$ 7,300,000.00	$ 4,576,000.00
UNASSIGNED RECEIVABLES		
CASH SALES		
L/Cs	666,303.87	664,473.43
ADVICES FROM MFG.-HEN <See Comments>	137,9[illegible].15	69,728.65
TRANSFER FROM FNCB Dep. A/C		40,000.00
RETURN OF CASH-FORD		50,000.00
DEPOSIT TO MFG FOR FNCB LOAN PAYMENT		8,880,000.00
TOTAL PER BANK	$ 8,104,117.66	$ 14,935,194.[illegible]

WORKING CAPITAL		
	THIS AUDIT DATE 9/30/71	LATEST FISCAL DATE 12/31/70
CASH	$ 1,375,000	$ 3,585,50[illegible]
ACCOUNTS RECEIVABLE	[illegible]	[illegible]
INVENTORY: ☐ PHYSICAL ☑ PERPETUAL ☐ OTHER (EXPLAIN)	10,575,800	6,631,500
PREPAID ITEMS	1,097,800	1,827,300
UNRECORDED EXP. / ADVANCES [illegible]	1,070,800 15,200	30,200
TOTAL	[illegible]	[illegible]
ACCOUNTS PAYABLE	9,[illegible] 100	12,[illegible] 100
NOTES PAYABLE	3,850,000	1,[illegible]
TAXES PAYABLE	57,500	65,800
BANKS / FNCB-MFD	1,131,300 7,536,800	[illegible] 16,303,000
OTHER - ACCRUALS	1,010,300	1,300,5[illegible]
TOTAL	24,066,600	[illegible]
NET WORKING CAPITAL	$ 26,364,600	$ 7,[illegible]

AUDIT INSTRUCTIONS

A 3249

ACCOUNT EXECUTIVE:

PER MR. SIEGEL, Check Proof [illegible] [illegible] [illegible] credits.

J L [illegible]
11/22/71

PROCESSING SECTION:

Routine

COLLATERAL RECONCILIATION SECTION:

ATTACH AUDITOR'S COMMENTS

P. EXH 708
10/24/74 BJ

FIRST NATIONAL CITY BANK A 3250
HUBSHMAN FACTORS DEPARTMENT

DATE December 17, 1968

FROM A. J. Lusk, A. C. TO Contract File

SUBJECT: De Luxe Topper Corporation

A meeting was held on December 12th, attended by the following:

De Luxe

Henry Orenstein
Ron Saypol
Morris Orenstein
Jack Rose

Hubshman

E. Waldman
D. Holzman
C. Marotta
A. Lusk

Manufacturers Trust
David Downs

Fidelity Union

John Trimble

Contingent on final audit, Henry Orenstein presented a projection of the results of operations for the year 1968 and a projection of operations for 1969, as well as a projection of their requirements for 1969:

Sales in 1967 were approximately $28MM and projection for the current year was $33MM. Actual sales for 1968 are expected to be $35MM, a 25% increase over 1967. The 1968 net profit is expected to be $51M, net of extraordinary depreciation on dies and molds of $1,851M and $910M of interest in connection with the revamped Extory (Philadelphia and Reading) debt. The recasting of the P & R debt provides for the forgiveness of $2.5MM of the original debt. The $2.5MM will be carried to net worth after the final payment in December 1969. Although DeLuxe has the option not to continue the new payment program, it is extremely unlikely that they would choose to do so. (option expires 12/31/68)

For 1969 Henry Orenstein said they have previewed their 1969 line of merchandise with their more substantial outlets and based on this appraisal, DeLuxe management has projected a volume of $43MM (increase of $8MM or approximately 23%). Net profit (after extraordinary depreciation) is forecast at $2.5MM.

FIRST NATIONAL CITY BANK A 3251
HUDSHMAN FACTORS DEPARTMENT

DATE____________________

FROM____________________ TO____________________

SUBJECT:

Both sales and net profit figures, they believe, are very conservative. Orenstein told us in the Suzy Homemaker line alone, they could have sold an additional $1MM to $1,250MM. The 1969 projection shows a substantial sales increase earlier in the year than they have experienced heretofore. They are introducing three lower priced items to the Suzy Homemaker line and the new race car item "Johnny Lightning". The latter will will be shown for the first time at the ~~[illegible]~~ Feb Toy Show from which they expect to be over-ordered. The new items are expected to provide a degree of stability to sales throughout the year vs. the present surge of Christmas business.

Line of credit of $11.5MM is requested for 1969. The projection provides for the repayment of bank loans in latter part of January and they expect to accomplish this for a short period of time (probably about one week). ([illegible])

Reliance on non-receivable assets peaks in April to a high of $3,387M ($850M inventory and $2,537M on machinery and equipment). Comparison of sub-limits for 1968 and 1969 requirements follows (in thousands):

	Inventory (@50%)		M & E	
Month End	1968	1969	1968	1969
January	-0-	-0-	-0-	-0-
February	700	506	1935	-0-
March	750	825	1970	1,524
April	800	850	1480	2,537
May	900	850	1330	1,529
June	900	850	1330	1,653
July	1050	850	590	61
August	1000	-0-	200	-0-
September	980	-0-	-0-	-0-
October	-0-	-0-	-0-	-0-
November	-0-	-0-	-0-	-0-
December	700	-0-	-0-	-0-
January	290	-0-	-0-	-0-

Inventory level does not reach the levels of 1968 due to the projected earlier shipment of merchandise. While the overall non-receivable exposure is higher in 1969 by $667M, both inventory and M & E Exposure are for a shorter period of time. The critical months are March thru June with the peak in April when eligible receivables will be almost three times what they were in April 1968.

FIRST NATIONAL CITY BANK A 3252
HUBSHMAN FACTORS DEPARTMENT

DATE ____________________

FROM ______________________________ TO ____________________

SUBJECT:

After the bank clean-up, junior participants are paid out: $1,220M in March and $1MM in April. Henry Orenstein mentioned that if necessary, his participation of $1MM can be continued.

Considering that DeLuxe has apparently had an outstanding year (cash flow) has absorbed payments to P & R of $2MM, appear to be in a position to manage the remaining principal payments ($3.5MM plus interest) to P & R, have been able to fullfil recent projections, have a substantial product position in the industry, continue to benefit from good management (despite impending resignation of R. Saypol) and has substantial investment in M & E (depreciated value $8.5MM), the projections and loan risk appear reasonable.

The critical point is their ability to gain acceptance of the new items mentioned earlier, to provide a higher level of early shipments. To provide an additional margin in that early period, we might consider retaining at least the $1MM of junior participants money until we are completely covered by receivable collateral (*)

Our collateral position is now as follows (in thousands)

Gross Receivables	$15,354.
Less:	
Ineligible (reserve for returns of $2.5MM)	2,623.
Past Due	914.
	$ 3,537.
Eligible Receivables	11,817.
@80%	9,454.
Loan Balance	7,606.
Less:	
Jr. Participants	2,220.
Cash Collateral	520.
Bank Loan	4,866.
FNCB Share @35%	1,703.

Subject to collections for balance of December and early January, the loan repayment would appear to be academic.

AJL/ec

(*) IN A PHONE CONVERSATION WITH H. ORENSTEIN FOLLOWING THE MEETING, I REQUESTED (CONT.)

FROM [illegible] JUNIOR PARTICIPATIONS [illegible] MONEY of Jan, HE LEFT IN [illegible] WITH US FOR AN ADDITIONAL 30/60 DAYS SO AS TO REDUCE OUR EXPOSURE TO NEW [illegible] FINANCING. H.O. IS REQUIRED TO PAY OUT CARTER BERLIND & WEIL JUNIOR PARTICIPANTS IN FEB. HE DOES NOT WISH TO ASK THEM FOR AN EXTENSION ~~and~~ AS THEY WILL ASK FOR SPECIAL BENEFITS AS THE PRICE. HE IS ALSO RELUCTANT TO TREAT HIS OWN ANY DIFFERENTLY, AS HE WANTS CB&W TO REGARD RESPECTIVE JUNIOR PARTICIPATIONS ON A PARITY IN EVENT THIS ARRANGEMENT EVER BECOMES NECESSARY AGAIN. HOWEVER I HAVE H.O.'S ASSURANCE THAT IF NEW PROJECTIONS ARE NOT MET BY END OF FEB. AND IF ORDERS ARE NOT UP BY 22% AS PROJECTED AT THAT TIME, HE AND MARIUS WILL LEAVE THEIR MONEY IN.

A 3254

PX 709

FIRST NATIONAL CITY BANK

[illegible] DEPARTMENT

DATE August 2[illegible], 1969

☐ GENERAL F
CREDIT FIL
☑ 2 YRS. W/H.4 YR
☐ PERMANENT
☐ SSF

FROM A. J. Lush, A.V.P. TO Contract File

SUBJECT: TOPPER CORPORATION

E. Waldman, V.P., D. Holzman, V.P. and the writer visited the subject's plant on August 27th, as the guests of Henry Orenstein, President. Also present were D. Downs, V.P. and Jack Rose, Vice President - Finance.

The main purpose of our visit was to see the newly started production of the Johnny Lightning car. In late April it became apparent to Topper management that the outside supplier of this item would not be able to supply the demand required. Topper then made the decision to produce J.L. in the Elizabeth plant. In approximately a months time, production commenced and production level has now reached 120,000 cars daily. Their additional production investment for the cars was approximately $400M. Topper's profit on the car is approximately $.25 per unit and at the present level, the initial investment can be recouped within a few weeks. Later in the year they expect to have a capacity of 200,000 units.

Volume in the J.L. car will be about $23MM this year and growth will continue next year. For January, February and March, a car volume of $9/10MM is expected, which gives them the advantage of substantial receivables much earlier in the year than heretofore.

Total volume is expected to exceed the revised projection of $54MM and will probably be closer to $60MM. Profit projected continues to be very optimistic.

For 1970 they will probably project volume in the area of $75MM but expect they will do better. Pre-tax profits for 1969 and 1970 are expected to be 20% of volume.

Next year's line will include a low priced doll item, to be produced overseas, which will not involve any additional plant investment.

Also for 1970, thru a wholly owned subsidiary of Topper, they are planning a line of Toiletries for the sub-teen market. A volume of $10MM is expected exclusive of the toy business. Distribution will be through some of the present toy outlets, i.e. Department Stores and Discount operations, as well as pharmacies and super market chains. Sales turnover is expected to be about 30 days which will tend to diminish the amount of capital required. Financing of this operation was not discussed.

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE

FROM TO

SUBJECT:

Jack Rose expects they will be able to absorb the present $1MM reliance on M. & E. collateral by month end as previously agreed. As mentioned previously, due to the possible temporary slow down of collections, they might have to exceed the line of $13.5MM. Any overage in line will be covered by receivable collateral and would only exist for a short period. To date collections have exceeded expectations.

Lusk
A. J. Lusk
Assistant Vice President

AJL/ec

Ew

P. EXH 710

10/29/74 CBY

A 3256

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE December 4, 1969

FROM A. J. Lusk, A.V.P.

TO Contract File ✓

SUBJECT: Topper Corporation

Edward Waldman, V.P. and the writer had the following in for lunch:

Henry Orenstein, President
Jack Rose, Vice President, Finance
David Downs, Vice President
Marrius Orenstein

Henry reported their status and expected plans for the future. They have already gone over $50MM. in volume and expect to end the year at $54.5MM which exceeds the last revised projection submitted but falls short of their expectations of recent months. Some momentum has been lost at the retail level in the industry in general. Their best estimate of net profit before extraordinary charges is $3MM plus. After charges of approximately $1.9MM, about $1MM or slightly more will likely be carried to surplus. They are understandably disappointed in this showing, as the net would have been substantially higher except for the initial expense encountered when Greice was not able to supply the Johnny Lightning car production expected. In addition, an imported item "Busy Babies" with a high profit margin was disappointing due to inability of the manufacturer to produce projected volume. The "Busy Babies" item was flown in on several occassions to meet orders but of course, at an additional cost. These items combined resulted in decreased profits of $3/4MM.

Due to the year round nature of the Johnny Lightning cars, they may not be able to give us the usual clean up of bank debt. They are arranging to bring in $5MM of new subordinated money, of which they have $2MM "99%" committed. The latter will offset and they expect to pre-pay the subordinated note of $1,945M due January 15, 1970. If they are successful in obtaining the balance of $3MM, a short or near clean-up may be possible. The clean-up is not a requirement but Henry would like to accomplish it to maintain the pattern of prior years.

A stock bonus is an inducement for the subordinated lenders. They expect to make a public offering in late April for 300,000. shares at $10.00 per share for benefit of the Company.

FINANCE ROUTING E. Waldman (over) EW

H. Dunn
Holzman
~~[illegible]~~
Fischer
~~[illegible]~~
READING FILE
CONTRACT FILE
✓ D. Dunn

A 3257

FIRST NATIONAL CITY BANK

FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE

FROM TO

SUBJECT:

-2-

Shipments for the first quarter of 1970 are expected to be approximately triple the same period of this year.

Subject to obtaining the additional $3MM of subordinated money, they would expect their loan position at the end of January to be about $3.5MM secured by eligible net receivables of $2MM, the balance by finished goods and the usual selected raw materials with a total cost value of approximately $5MM.

Jack Rose is preparing a preliminary projection for next year and they will be in touch with us again as soon as the figures are ready. Next year's projected volume will probably be about $70MM.

Lusk

A. J. Lusk
Assistant Vice President

AJL/ec

CC: Virginia Maynard, A.V.P.
Canadian District

12/5/67 - Not to detract from Harry's performance all projections are to be considered with the reservation that the goals set forth are subject to some dilution for one reason or another —

7.26.

A 3258

PY711

☑ GENERAL FILE
CREDIT FILE
☐ 2 YRS (W/H 4 YRS.)
☐ PERMANENT

FII T NATIONAL CITY BAN.

FACTORING AND COMMERCIAL FINAN E DEPARTMENT

DATE 6/23/70 GSF.

FROM A. J. Lusk AVP TO File

SUBJECT: Topper Corporation

File

Jack Rose V.P.-Finance called to request our consideration of revising the Machinery and Equipment sublimit as follows:

	Approved	Revision Requested
June	1.900M	1.900M
July	.800M	1.300M
August	-0-	.500M
September	-0-	-0-

Mr Rose's rationale for this revision is the shortfall of $500M from the projected public offering proceeds. However, the projections are off as follows (through May 30th):

1. Loan balance projected as $8.336M vs. actual of $12.8MM. Even allowing for the $2.3MM public offering money which came in early June (instead of May), loan balance is over projected by $2.2MM.

2. Customers collections of $4.3MM were projected in May vs. actual of $2.0MM for approximately the same overage in the loan balance.

3. Net shipments through end of May are approximately on target; however, Mr. Siegel advises that there are apparently $1MM of unreported credits (re billing already assigned) which would indicate a shortfall in net sales of the same amount. We are awaiting receipt of these credits before discussing further with client.

selling cost disproportionately

4. The first quarter loss of $2.0MM is only slightly reduced to $1.875MM at 4/30/70 (4 mos.) although volume was up substantially.

1Q Statement

5. While there are variances in budgeted expenses in Sales, Production, Plant and Quality Control and the R & D Departments, there appears to be improvement in all departments in the month of April except for the Sales and Plant and Quality Control areas. The latter may be an indication of the continuance of past problems encountered with start-up on new products and the former may indicate that sales are at least more expensive to book.

6. Reviewing the schedule of orders and shipments of particular items, there is a considerable discrepancy of Dawn Doll shipments vs. orders (as of 4/30).

[illegible] due to [illegible] production

7. Open orders as of 4/30 were $38.1MM vs. $31.5MM one year ago.

Before giving further consideration to client's latest request, I believe we should discuss the foregoing internally and then meet with the client.

Lusk
A. J. Lusk
Ass't. Vice Pres.

TO M. Siegel
D. [illegible]
H. Dunn
E. Waldman

TUBE NO.

REMARKS Re: Topper

☐ SEE/PHONE ME
☐ FOR YOUR USE/FILE
☐ NOTE & RETURN
☐ RETURN WITH REPLY
☐ FOR YOUR COMMENTS
☐ NOTE & SEND TO
☑ DO YOU APPROVE?
☐ MAY BE DESTROYED

FROM (NAME, LOCATION, TUBE NO.) Lusk

TEL. EXT.

DATE

FIRST NATIONAL CITY BANK

BP 1941 REV. 4-69

A 3260 P. EXH 718
10/29/74

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE December 18, 1970

A. J. Lusk, A.V.P. TO Contract File

SUBJECT: Topper Corporation

Meeting here on December 17th, attended by:

TOPPER:

Henry Orenstein
Jack Rose
David Downs

FIRST NATIONAL CITY BANK:

Edward Waldman, V.P.
M. Siegel, A.V.P.
A. Lusk, A.V.P.

Due to the uncertainty of general economic and industry conditions they have:

1. Deferred various commitments normally made by this time for the 1971 season, pending a clear indication of the current year's results.
2. Planning started earlier this year, will continue to shift the emphasis from higher priced items ($10.) to the lower price range ($1-$2.).
3. They have been controlling inventory closely, and expect to close the year at $4MM or slightly higher. That figure appears conservative against past year's experience.

Major outlets at this time, have a limited "open to buy" and to attract business for early 1971, they have been obliged to give special dating. Examples are Kresge ($2MM) and Korvette ($1MM) with terms [illegible] May and August, although they have verbal understanding of earlier payments. Kresge, they BELIEVE will honor the verbal agreement.

ROUTING

A 3261

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE

FROM TO

SUBJECT:

1/35 [illegible] H.O. to L.W.C. [illegible] ex 13mm [illegible] A/cs. of 8/10m.

Low point of loan balance will be reflected at approximately $7 1/2MM near the end of January. Breakdown of receivable collateral at end of January is expected to be somewhat as follows:

$5.5MM	August dating
$8.5MM	May dating
$4.0MM/5MM	Misc. (with some past due)
$18.0MM/19.0MM	

In addition, about 80% of the collateral would consist of "Dawn" shipments.

Due to the high level of receivables in January, they will not be able to effect the customary clean-up which historically we have not required but has been adhered to merely as a gesture of their liquidity at season's end. There was some discussion of ourselves and the other participants carrying the entire loan for only four or five days to effect a clean-up at Manufacturers Hanover. We would have the assurance of Manufacturers that they would go back in the credit. No final disposition was made, however, I don't see the justification for this proposal. Clean-up's are not normally required on secured bank lines. Furthermore, a clean-up on the basis outlined (rotation to other banks) and for the short period involved makes no sense at all.

AJLusk
A. J. Lusk
Assistant Vice President

AJL/ec

P.S. The problem of container shipments should be resolved favorably within a short period of time. I will follow up with Jack Rose.

x pa

A 3262 'RST NATIONAL CITY B
HUBSHMAN FACTORS DEPARTMENT

P. EXH 110
10/31/74

DATE Jan. 14, 1969

FROM David L. Holzman TO Contract File

SUBJECT: De Luxe Topper Corporation

Dave Downs of Manufacturers Hanover Trust Co. and Bill Hoffman and John Trimble of Fidelity Union Trust Co., Newark, were guests of E. Waldman and D. L. Holzman at lunch on January 13th to discuss a line of credit for Deluxe Topper Corporation for the year 1969. The present line expires on January 31st. The following agreement was reached:

1. To extend the line of credit to Deluxe Topper Corporation for the year 1969 based upon a projection of operations submitted by Topper which would peak at $11.5MM in July; a sublimit of $3.5MM on non-receivables which peak would be reach in April, of which $2.5MM would be fixed assets.

3/31
'68 '69
475
675

2. Condition granting this line would be that on March 31st, Deluxe Topper's orders on hand would be 22% ahead of last year. Sales to the end of March 1968 were $6MM so that $7.3MM in sales would have to be on hand March 31st. If these orders do not develop, the Orenstein's would continue their $1MM Junior Participation arrangement.

3. Effective February 1st, 1969, participations shared by the banks ~~would~~ will be as follows:

		Present	Amended as of Feb. 1, 1969		
First National City Bank	35.0	45.0	~~32.5~~	4V ~~42.5~~	37
The Mercantile Bank of Canada	10.0		~~10.0~~		5
Manufacturers Hanover Trust Co.		40.0		~~43.0~~	43
Fidelity Union Trust Co.		15.0		15.0	15

4. All banks agree that the rate paid by Deluxe Topper Corp., should be increased effective February 1, 1969, to absorb the increase in the prime rate from 6 1/2% to 7% and that such increase should be reduced accordingly in the event of any future reduction in the prime rate. The increased rate to be paid to each of the participating banks would then be as follows:

	Present	Increased Rate
First National City Bank The Mercantile Bank of Canada	9.47	9.97
Manufacturers Hanover Trust Co.	7.65	8.15
Fidelity Union Trust Co.	7.65	8.15

I have been unable to reach Henry Orenstein to discuss with him the decision reach by the Banks, but left word to have him call me.

DLH

EW

A 3264

P. EXH 741

BJ 11/8/14

As the E.C. Report indicates, this credit has been classified by the National Examiners, the Directors and the Comptroller.

The principals, Henry and Marrius Orenstein, originally ran a toy business which was purchased by Philadelphia & Reading Corp. in 1960 and operated by them as a subsidiary.

Very substantial sums were advanced by Philadelphia & Reading to the company, which did a volume of approximately $58,000,000 in 1965 and ended that year with a net profit of approximately $1,000,000, but the company was left with a very substantial inventory subject to considerable depreciation.

Philadelphia & Reading decided to sell the business back to the Orensteins in August of 1966. At that time the subsidiary owed Philadelphia & Reading approximately $40,000,000, $20,000,000 of which had to be paid back to Philadelphia & Reading at the time of closing. Philadelphia & Reading agreed to accept ten-year debentures of the new company for the balance and in addition they loaned the new company $8,000,000 for working capital purposes which they subordinated to January 1967.

We took the account on with an initial loan of $20,000,000 with participation by three other banks and finance companies. Our share was $4,000,000.

The subsequent operations of the new company were disastrous. In liquidating the inventory and eliminating certain product lines they suffered a loss of over $15,000,000 as of the fiscal period ended February 4, 1967.

Operations for the new fiscal year ended December 3, 1967 resulted in a loss of $800,000 after special write-off of about $2,000,000 for extraordinary depreciation of fixed assets. These are pro forma figures subject to certified audit by Arthur Young & Co.

The principals are confident they are now on sound ground. It is estimated that their maximum requirements for the coming year will peak at $8,000,000 compared to $11,000,000 last year.

The principals have brought in $1,560,000 of their own money as junior participants.

(continued)

Philadelphia & Reading has cancelled the $19,000,000 long-term debt and extended their subordination on the $8,000,000 loan for another year.

All monies advanced by the banks to De Luxe Topper in 1967 have been paid in full at this time.

Since preparing this E.C. Report the Fidelity Union Trust Company of Newark has evidenced an interest in a 15% participation which would then give us the following commitments:

FNCB	35%	for a combined total of $2,918,000
Mercantile	10%	
Mfrs. Hanover	40%	
Fidelity Union	15%	

All loans are secured by an 80% advance against accounts receivable and a 50% advance against inventory plus a mortgage against the fixed assets.

As a further precaution we have an understanding with the company that the participating banks' total loan not covered by accounts receivable shall not exceed $1,000,000. Our yield is in excess of 13% per annum.

While there is no assurance that the company will realize its profit projections for 1968, we feel that the collateral will be sufficient to enable us to liquidate our position at any time considering also that there is $1,560,000 of junior participation money behind our loan.

E.W.

2/5/68

P. EXH 742 / A 3266

11/8/74

SF 3665 REV. 3-71

EXECUTIVE COMMITTEE REPORT

BORROWER TOPPER CORPORATION	DATE 3/25/71
LOCATION ELIZABETH, NEW JERSEY	REVISION DATE 3/31/72
BUSINESS TOY MANUFACTURERS	PREVIOUS REPORT DATE 5/27/70
REPORTING UNIT FACTORING/COMMERCIAL FINANCE	AVERAGE AVAILABLE DOM. BALANCES (12 MO.) $ 67,000.

ALL FIGURES EXPRESSED IN MILLIONS EXTENDED TO ONE DECIMAL

		AMOUNT	NET CHANGE
TOTAL LINES/ COMMITMENTS		$7,770,000.	-0-
DOMESTIC		$6,845,000.	-0-
FOREIGN		$ 925,000.	-0-
UNALLOCATED		$	
FOR. EXCH.	LINE	$	ADVERSE CLASSIFICATION
	RELATED CLEAN RISK	$	

PURPOSE OF REPORT:

ANNUAL REVIEW AMOUNT UNCHANGED

LINE/COMMITMENT DESCRIPTION AND REMARKS:

$6,845,000. Represents our 37% share of total loan of $18,500,000. secured by an 80% advance against eligible accounts receivable assigned with recourse in the Commercial Finance Section.

Participants are:

Mercantile Bank of Canada	$ 925,000.	(5%)
Manufacturers Hanover Trust Co.	$7,955,000.	(43%)
Fidelity Union Trust Company	$2,775,000.	(15%)

As additional collateral we hold a security interest in machinery and equipment, molds and dies, raw materials and finished goods inventory.

Rate: 9% per annum (minimum rate) based on 3.47% over FNCB Best of 6%.

Paid to Participants:

Manufacturers Hanover Trust Co.	7.18%
Fidelity Union Trust Company	6.40%
Mercantile Bank of Canada	9.00%

Company presently negotiating for sale of additional common stock, proceeds to company should be in the area of $3MM/$5MM.

REPORTING OFFICER	Edw Wallman	DATE PRESENTED TO BOARD OF DIRECTORS

A 3267 P. EXH 743

11/8/74

☐ [illegible] FILE
CREDIT FILE
☑ 2 YRS. ([illegible])
☐ PERMANENT
☐ SSF

MEMORANDUM TO: CONTRACT FILE

RE: TOPPER CORPORATION

Meeting of April 16th, attended by the following:

TOPPER

Henry Orenstein
Jack Rose

F.N.C.B.

E. Waldman
D. Holzman
C. Marotta
A. Lusk

Henry Orenstein brought us up to date as follows:

1. In 1970 they expect to be in position to expand into the consumer goods field (probably cosmetics). They believe they have novel approach to this line about which we will hear further at a later date.

2. David Downs, Vice President, Manufacturers Hanover has resigned that position and will shortly be with Topper. His assignment will to some extent be similiar to that of Ron Saypol, i.e., acquisitions, and negotiations with groups outside the company.

3. They are planning on a public issue of $3MM for year-end. Prospectus will be on a 8/31/69 statement, with entire proceeds for the benefit of the company.

4. Production of the new race car "Johnny Lightning" has not been up to projection due to the poor control of flow of parts at the Coates & Clarke plant. The latter has now allowed Topper to place their own man in this operation which they now have under control. Due to this early problem and the high demand for this item, they have set up production of the car in the Elizabeth, New Jersey plant also. Within a few months they expect to be caught up on the cars.

[illegible] ROUTING
[illegible]
[illegible]
[illegible] Exec.
[illegible] FILE
[illegible]

5. The shortfall of Johny Lightning shipments has been covered by shipment of other production thus overall shipments have slightly exceeded projections.

6. For the week ending 4/11/69 booked orders were $28,695M vs. 1968 figure of $10,877M There are approximately $6MM in additional orders in house but not booked. They therefore have orders approximating their 1968 volume.

Based on the orders on hand and the reception of their new items, they have revised projection for the year to a volume of $50MM which they believe is very conservative. Revised projection has been submitted which indicates a need for a line of credit of $13,500,000. (increase of $2MM).

New projections shows increase of $2,947M in operating and overhead expenses. Comparison with previous projections indicates increases and decreases in the various catagories which in the main have little effect on the total except for advertising which is up by $2,900M. Henry Orenstein said they are very flexible on the advertising item and can within reasonable limits defer or cancel commitments.

Overall sub-limits of inventory and machinery and equipment loans require revision to the following schedule:

MONTH ENDING	INVENTORY	M & E	TOTAL
April	$1,000M	$2,500M	$3,500M
May	$1,000M	$2,000M	$3,000M
June	$ 900M	$2,000M	$2,900M
July	$ 900M	$1,000M	$1,900M
August	$ 400	-0-	$ 400M
September	-0-		-0-

A 3269

The schedule of changes from previous sub-limits is shown below:

MONTH ENDING	INVENTORY	M&E	TOTAL
April	+150M	-	+150M
May	+150M	+500M	+650M
June	+ 50M	+350M	+400M
July	+ 50M	+940M	+990M
August	+400M	-	+400M
September	-	-	-

Messrs. Waldman and Holzman indicated to Topper management that the increased needs would be agreeable.

Line ticket covering our 42% share (includes Mercantile Bank's 5%) is being prepared. Our bank's share of increased credit amount represents a 17.4% increase and sub-limit increase of 12%.

According to a later conversation with Jack Rose, they will contact Fidelity this week (4/21) on their increased needs. Manufacturers Hanover has already been advised. We should contact both banks for their concurrence. We should also contact Mercantile Bank.

A. J. Lusk
Assistant Vice President

April 21, 1969

AJL/ec

FINANCE ROUTING
Holzman
~~[illegible]~~
~~[illegible]~~schor
A/C Exec.
READING FILE
CONTRACT FILE

P. EXH 744   A 3270

11/8/74

☐ GENERAL FILE
CREDIT FILE
☒ 2 YRS (W/IN 4 YRS)
☐ PERMANENT
☐ SSF

MEMORANDUM   TO: CONTRACT FILE

RE: TOPPER CORPORATION

March 31, 1969 (3 Months) figures have been spread in file.

As previously advised sales for the period were $1,558M with a loss of $998M shown compared to the same period last year:

Sales $1,048M   Loss $1,158M

If last year's pattern is followed, this should be peak loss figure for year with profitable monthly operations thereafter. Figures should be black by June or possibly sooner.

Lusk

A. J. Lusk
Assistant Vice President

May 7, 1969

ROUTING
CREDIT FIL
J. D.
R.H.
EW

A 3271

RECEIVED

February 9, 1972

File

RECEIVED BY ______________________

Jack J. Rose

SIGN & RETURN TO

EXCHANGE LETTERS

On this date, I reviewed with Preston Maas not only the S.S. Kresge file but also the Exchange Letters referred to Arthur Young & Company on January 15, 1972.

Mr. Maas indicated that he had never seen the letters prior to this date nor did he have knowledge of their existence.

Mr. Maas also indicated that he could recall of no instance where a customer had the right of exchange other than the balancing of inventory (doll for doll, dress for dress).

Jack J. Rose

JJR:rc

cc: J. Schwartz
S. Obolsky
P. Maas

P. EXH 832
11/11/74

A 3272 P. EXH 833
11/18/74 RD

Topper Corporation [illegible] elizabeth, new jersey 07206 tel. 201-351-4400/212-233-4300

December 21, 1970

Henry Orenstein
president

1971 TOPPER CORP. PROGRAM FOR S. S. KRESGE COMPANY

1. S. S. Kresge Company 1971 net cost prices with the Topper Corp. will be Topper's list cost price minus 10% for all items in all categories in Dept. #4 - Toys and Games - and Dept. #64 - Hobbies and Crafts. (This will include closeouts.)

2. There will be an extra 10% Early Buy Discount applying on our Blanket Order #32, dated November 20, 1970, and Blanket Order #4, dated Dec. 4, 1970. Terms and conditions to conform to the instructions as outlined on these Blanket Orders. These orders will be payable on January 15, 1971.

   This merchandise will be shipped to and warehoused for S. S. Kresge Co. by NYTCO (New York Terminal Warehouse Company, Inc.)

3. $100,000.00 minimum advertising allowance will be given to the S. S. Kresge Company by Topper Corp. for 1971 advertising program. Additional advertising allowances to be negotiated at Toy Fair and throughout the year 1971 as opportunity arises.

4. As an additional incentive, the S. S. Kresge Company will be given an opportunity to buy up to $2,000,000.00 cost with the extra discount. (19% from List Cost Price.) This applies to Blanket Order #33, dated December 21, 1970.

   Payment for any purchases against this incentive agreement will be made by August 30, 1971. (Schedule of payments will be arranged during Toy Fair or by March 31, 1971.)

5. Topper Corp. will be fully responsible for all warehouse and insurance costs.

   The insurance policy covering this merchandise should be made payable to S. S. Kresge Company.

   Topper Corp. would be solely responsible for loss of S. S. Kresge Co. merchandise while in said warehouse.

   Topper agrees that in the event excessive quantities of any item remain in NYTCO Warehouse after initial distribution to S. S. Kresge stores, Topper will arrange for said merchandise to be exchanged dollar for dollar for merchandise which more closely conforms to Kresge's requirements. This applies to Blanket Order #33, dated December 21, 1970, and all future blanket orders for the NYTCO warehouse.

A 3273

1971 TOPPER CORP. PROGRAM FOR S. S. KRESGE CO.

Page 2. December 21, 1970

6. Topper represents that all Topper merchandise will be supported by a full TV campaign starting January 1971 on a continuous basis through December 1971. Should Topper's TV campaign not be provided as represented above, Kresge will have the right to return the above merchandise to Topper.

Henry Orenstein Pr.
Topper Corporation

S. S. Kresge Co.

A 8274 P. EXH 840
11/18/74 - R.D.

PERSONAL AND CONFIDENTIAL

December 22, 1970

Mr. Lew Yaffa
Child World, Inc.
25 Littlefield Street
Avon, Massachusetts 02322

Dear Lew:

As per our conversation, this memo is to confirm that we will exchange any excess merchandise from your 1971 Spring order on a dollar for dollar basis for any merchandise in our 1971 line.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return this merchandise.

The payment for the merchandise on this order is due May 10th, 1971. However, if you have not distributed the merchandise to your own stores by this payment date we will at that time work with you on re-dating the invoices.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWH:c

A 3275 P. EXH 844
11/18/74-CD

PERSONAL AND CONFIDENTIAL

"AIR MAIL"

August 25, 1971

Mr. Louis O. Buchwach
Northern Specialty Sales
6635 No. Baltimore Street
Portland, Oregon 97203

Dear Lou:

This letter is to confirm our agreement concerning your inventory position.

Because you are a major distributor of Topper Toys and will be shipping to national accounts for us in the northwest; we have agreed that if you have an inventory problem, we will exchange any merchandise that is a problem to you for other merchandise in our line.

Thank you for your continued cooperation.. Please give my best wishes to Sylvia.

Sincerely,

Fred C. Pierce

FCP/em

A 3276

P. EXH 849 - RC
11/18/74

PERSONAL AND CONFIDENTIAL

November 27, 1970

Mr. Morey Kasch
M. W. Kasch Company
4545 N. Port Washington Road
Milwaukee, Wisconsin 53212

Dear Morey:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we have asked you to place.

This exchange of merchandise to take place when mutually agreed upon and on merchandise to be agreed upon.

Very truly yours,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP/
ees

Ex. #62
6-21-72
IFS

P. EXH. 873 A 3277

12/4/74

December 21, 1970

PERSONAL & CONFIDENTIAL

Mr. Robert Kouler
American Hardware
Butler, Pennsylvania

Dear Mr. Kouler:

As per your conversation with Mr. Fred Rosen, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:e

64

P. EXH 874 A 3278

10/4/74 PS

December 22, 1970

PERSONAL & CONFIDENTIAL

Mr. Arthur Euban
American Leisure Products
101 West 31st Street
New York, New York 10001

Dear Arthur:

As per your discussions with Mr. Mason Benson, this letter is to confirm that we will exchange any excess merchandise from your 1971 Spring Order on a dollar for dollar basis for any merchandise in our 1971 line.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return the merchandise on this order.

The payment for the merchandise on this order is due May 10, 1971. However, if you have not distributed the merchandise to your own warehouses by this payment date, we will at that time work with you on redating these invoices.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:o

42

P. EXH 876 A 3279

12/14/74. DS

December 16, 1970

Mr. Leon Davis
Davis Brothers
111 Midtown Bridge Road
Hackensack, New Jersey

Dear Leon:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the new 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

If merchandise on this order is not distributed by the May 10, 1971, payment date, we will work with you on additional dating.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:ro

AL

P. EXH 878
5/4/74

A 3280

December 17, 1970

PERSONAL AND CONFIDENTIAL

Mr. William Bernstein
Federal Wholesale Toy Company
14407 Alondra Boulevard
LaMirada, California

Dear Bill:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

If merchandise on this order is not distributed by the May 10, 1971, payment date, we will work with you on additional dating.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:a

bcc: J. Gross

A2

A 3281

P. EXH 881-C

12/4/74 bs

December 14, 1970

Mr. Tom Patterson
Grandway Stores
East 51 Midland Avenue
Paramus, New Jersey

Dear Tom:

This letter is to confirm that Topper will exchange excessive inventory if created by your 1971 Spring Order dollar for dollar for any merchandise in our 1971 line.

It is further agreed that should Topper fail to support this merchandise with T.V. as we have supported our merchandise in the past, that you will have the right to return this merchandise.

Very truly yours,

TOPPER CORPORATION

Mason Benson

MB

A2

A 3282

P. EXH 883
12/4/74 lss

PERSONAL AND CONFIDENTIAL

December 10, 1970

Mr. Stanley Silber
Interstate Stores, Inc.
111 Eighth Avenue
New York, New York

Dear Stan:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we have asked you to place.

This exchange of merchandise to take place when mutually agreed upon and on merchandise to be agreed upon.

Very truly yours,

TOPPER CORPORATION

Fred C. Pierce
Vice-President - Sales

FCP/e

A 3283

P. EXH 884
12/4/77

April 5, 1971

Mr. Norman Axelrod
Interstate Stores
111 Eighth Avenue
New York, New York

Dear Norman:

As per our conversation, we will review your NYTCO warehouse inventory on or about November 1, 1971, and at that time will exchange any merchandise that we both feel is over and above quantities that can be used
used by the store.

Regards,

Fred C. Pierce

cc

A 3284

P. EXH 885
11/14/74 NJ

December 16, 1970

PERSONAL AND CONFIDENTIAL

Mr. Sy Ziv
Lash Distributors
10700 Tucker Street
Beltsville, Maryland 20705

Dear Sy:

In regards to your 1971 Spring Order, the payment terms will be $30,000 due in January with the balance being payable 1/2 on May 10, 1971, and 1/2 on August 10, 1971. If merchandise on this order is not distributed to your stores by the May 10th payment date, we will work with you on additional dating.

If the quantities on this order are excessive, we will exchange this merchandise dollar for dollar for any merchandise in our 1971 Toy Fair line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:ss

A 3285

P. EXH 886

12/4/77

December 21, 1970

PERSONAL & CONFIDENTIAL

Mr. Mickey Abrams
Marand Distributors
240 Roberts Avenue
Philadelphia, Pennsylvania 19144

Dear Mr. Abrams:

As per your conversation with Mr. Fred Rozan, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President – Sales

FCP:a

A2

A 3286

P. EXH 887
12/4/74

December 18, 1970

PERSONAL AND CONFIDENTIAL

Mr. Sam Greenberg
New England Trading Corporation
One Mercer Road
Natick, Massachusetts 01760

Dear Sam:

As per our discussions, this letter is to confirm that we will exchange any excess merchandise from your 1971 Spring Order on a dollar for dollar basis for any merchandise in our 1971 line.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return the merchandise on this order.

The payment for the merchandise on this order is due 1/2 on May 10, 1971, and 1/2 on August 10, 1971. However, if you have not distributed the merchandise to your own warehouses by these payment dates, we will at that time work with you on redating these invoices.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:a

A2

A 3287

P. EXH [redacted] 888
12/4/74 ID

December 9, 1970

Mr. Larry Ades
Pensick & Gordon
6501 Flotilla Avenue
Los Angeles, California 90022

Dear Larry:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar excessive inventory created by the New 1971 Spring order which we have asked you to place for any merchandise in our 1971 Line.

It is also agreed that full T.V. support will be given on all our merchandise in 1971. Should Topper fail to support this merchandise on T.V. as we have supported it in the past, you will be entitled to receive re-shipping instructions on this merchandise.

Very truly yours,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:es
blind: cc: J. Gross (air mail - spec. del.)

A 3283

P. EXH 890
12/9/74

December 16, 1970

PERSONAL AND CONFIDENTIAL

Mr. Ron Tuckman
Tenneron Distributing Company
8435 W. Golf Road
Niles, Illinois 60648

Dear Ron:

In regards to your 1971 Spring Order, the payment terms will be $20,000 due in January with the balance being payable 1/2 on May 10, 1971, and 1/2 on August 10, 1971. If merchandise on this order is not distributed to your stores by the May 10th payment date, we will work with you on additional dating.

If the quantities on this order are excessive, we will exchange this merchandise dollar for dollar for any merchandise in our 1971 Toy Fair line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:e

H2

A 3289

P. EXH 871

12/4/74

December 10, 1970

Mr. Murray Halpern
Tee Vee Toys, Inc.
93 Seveland Road
Newton, Massachusetts 02159

Dear Murray:

This memo is to confirm that Topper will exchange excessive inventory if created by your 1971 Spring Order dollar for dollar for any merchandise in our 1971 line.

It is further agreed that should Topper fail to support this merchandise with T.V. as we have supported our merchandise in the past, that you will have the right to receive re-shipping instructions.

Very truly yours,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:es

A L

A 3290

P. EXH 892

12/4/74 DJ

December 21, 1970

PERSONAL & CONFIDENTIAL

Mr. John Refergiato
Twin Fair
Walden & Dick Road
DePew, New York

Dear Mr. Refergiato:

As per your conversation with Mr. Fred Rosen, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:o

c

A1-

A 3291

P. [illegible] 1-293
12/4/74

December 22, 1970

PERSONAL & CONFIDENTIAL

Mr. Justin Kalish
Yankee Distributors
18713 Berman Avenue
Detroit, Michigan

Dear Justin:

As per our discussions, this letter is to confirm that we will exchange any excess merchandise from your 1971 Spring Order on a dollar for dollar basis for any merchandise in our 1971 line. This order, as you know, gives you a discount of 10% and an extra 8% which is available on a one-time only basis for this promotion only.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return the merchandise on this order.

The payment for the merchandise on this order is due May 10, 1971. However, if you have not distributed the merchandise to your own warehouses by this payment date, we will at that time work with you on redating these invoices.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:a

A 2

A 3292

78

P. EXH 895
12/4/74

December 7, 1970

Mr. John R. Bricker
Ketchum Distributors, Inc.
~~Forchheimer Division~~
600 North Cassady Avenue
Columbus, OHIO 43219

Dear Mr. Bricker:

Thank you for your letter of November 23th. Your understanding is completely correct regarding paragraphs 1, 2, 3 & 4. Regarding paragraph 5, as per previous discussions, this letter confirms our agreement to exchange dollar for dollar any excessive inventory created by the new 1971 Spring Order which we have asked you to place.

This exchange of merchandise to take place when mutually agreed upon and on merchandise to be agreed upon.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWH:e

H2

A 3293

P. EXH 896
12/4/74 DB

July 22, 1973

Mr. John Sioff
The S & M Company
Cleveland & Kennedy Streets, N.E.
P. O. Box 580
Minneapolis, Minnesota 55440

Dear John:

This letter will confirm our merchandise exchange arrangement on a no-charge basis in which you will return merchandise listed on Topper Corporation's return authorization numbers: 23754, 23871, 23874, 23875 and 23880. Once all of the merchandise has been received, we will exchange merchandise of a like value.

Very truly yours,

Fred C. Pierce
Vice President - Sales

FCP:mm

P. EXH 957
12/9/74

A 3294

70-21

Topper Corp

12/31/70

Schedule of Returns Allowances copied
from client schedule

Returns before 12/31/70

Cars - Credit Invoices	E4.4.1	352 504.52	
Cars - Credit Memos	E4.4.1	113 247.58	- see E4.4.1
Other Returns prior to 1/1/71	E4.4.2	213 573.76	
		678 925.86 ‡ ✓	

‡ traced to lead schedule E4

This area is broken out into 3 sections. The first is car returns covered by credit invoices. The second is car returns covered by credit memos. The third category covers all other returns.

832

C123

Index No.
E4.4.

A 3295

Topper

P. EXH 958
12/9/74

Meeting Tues. 4/21/70

Discussions with Jack Rose and Julie Schwartz revealed certain problems which will make the 3/31/70 interim closing difficult:

1. Topper has allowed certain customers, in order to induce them to write large orders - which I have been assured has happened - to exchange the 1969 Johnny Lightning 98 car assortment for the 1970 assortment. Most of this had been done by 3/31 through recording the exchanges (returned) as negative sales and subsequent shipment as a regular sale. J.R. estimates this has amounted to approx $1mm this year.

As of 3/31 certain overlapping has occurred - cars have been returned & recorded as a negative sale, however the new assortment has not been shipped. Per J.R. estimate this would approach $250m

2. As another inducement to write larger orders, H.O. & Fred Pearce evidently, have allowed customers to return perfectly good merchandise. These have amounted to more than was reserved for at 12/31 (even after the additional $200 + m accrual). This could amount to, estimated ≈ $300m additional. Actual returns and allowances have not exceeded the 12/31 reserve.

These items are in perfectly good condition and have been assured they will have no problem

Prepared by W
Date 4/21/70
Index No. A3
(Cont'd)

selling them at full price.

J. Rose believes these costs rather than effect P&L (through returns & allowances), should be deferred in the balance sheet as applicable to future sales. One of the items is the T.L. 500.

2. No 12/31 A/R have gone bad as of 3/31 and possibly the allowance for bad debts s/b decreased. In addition, client is accruing 30^{00} monthly as additional bad debts reserve.

Regarding (1) and (2) above, both have probably happened in prior years but according to J. Rose, ~~there is~~ it would be extremely difficult, if not impossible, to arrive at a figure!

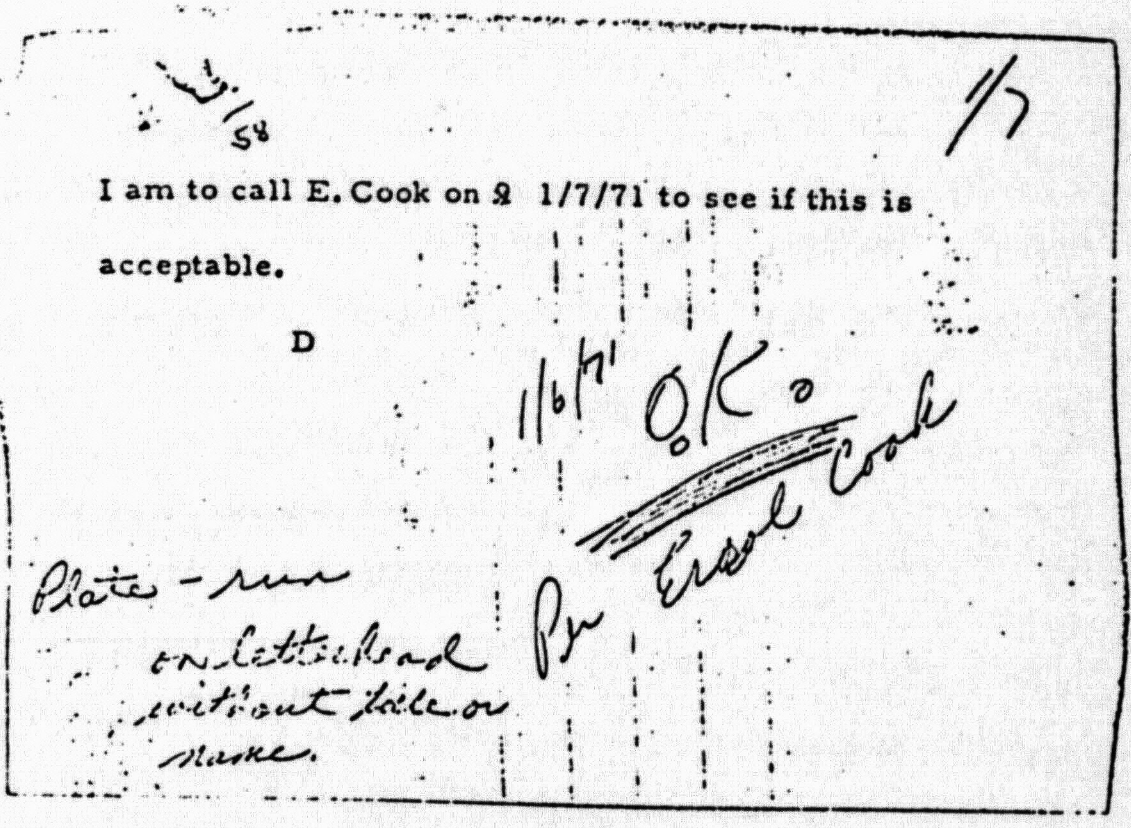
Jacks major area of concern regarding interim financials seems to be the reserves.

Prepared by W.R.S.
Date 7/31/70

Index No.
A-3

A 3297

P. EXH 961
12/9/74



58

1/7

I am to call E. Cook on 2 1/7/71 to see if this is acceptable.

D

1/6/71 O.K. Per Errol Cook

Plate - run on letterhead without title or name.

A 3298

Topper Corporation executive offices & plant elizabeth, new jersey 07206 tel. 201-351-4400/212-233-4380

January 6, 1971

Dear Sirs:

This letter is being sent to you to enable our independent auditors to confirm the correctness of the attached statements. It is not a request for payment.

Our records on December 31, 1970 showed an amount of $____________ receivable from you. Please confirm whether this agrees with your records on that date by signing and returning this form direct to our auditors, Arthur Young & Company, 277 Park Avenue, New York, New York 10017. An addressed envelope is enclosed for this purpose.

The above amount is correct except as noted below:

____

____

Date________________ By________________________

Title________________________

Included in the above amount are invoices carrying extended dating amounting to $______________. It is extremely important to us that you confirm separately to our auditors the correctness of these invoices. For your convenience we have enclosed a statement of your account indicating the balance due under regular and extended dating. We have also included copies of all invoices carrying extended dating.

The extended dating is correct except as noted below:

____

____

Date________________ By________________________

Title________________________

If you find any differences, please report details direct to the auditors.

Very truly yours,

TOPPER CORPORATION

Jack J Rose

Jack J. Rose

Sr. Vice President Finance

JJR:djc
encls.

51

A 3299

January 6, 1971

Dear Sirs:

This letter is being sent to you to enable our independent auditors to confirm the correctness of the attached statements. It is not a request for payment.

Our records on December 31, 1970 showed an amount of $__________ receivable from you. Please confirm whether this agrees with your records on that date by signing and returning this form direct to our auditors, Arthur Young & Company, 277 Park Avenue, New York, New York 10017. An addressed envelope is enclosed for this purpose.

The above amount is correct except as noted below:

____

____

Date________________ By______________________

Title______________________

Included in the above amount, are invoices carrying extended dating amounting to $_______________. It is extremely important to us that you confirm separately to our auditors the correctness of these invoices. For your convenience we have enclosed a statement of your account indicating the balance due under regular and extended dating. We have also included copies of all invoices carrying extended dating.

The extended dating is correct except as noted below:

____

____

Date________________ By______________________

Title______________________

If you find any differences, please report details direct to the auditors.

Very truly yours,

TOPPER CORPORATION

Jack J. Rose
Sr. Vice President, Finance

JJR:djc
encls.

- cc given to: J. Schwartz, E. Zoll, E. Cook

A 3300

January 6, 1971

Dear Sirs:

This letter is being sent to you to enable our independent auditors to confirm the correctness of the attached statements. It is not a request for payment.

Our records on December 31, 1970 showed an amount of $__________ receivable from you. Please confirm whether this agrees with your records on that date by signing and returning this form direct to our auditors, Arthur Young & Company, 277 Park Avenue, New York, New York 10017. An addressed envelope is enclosed for this purpose.

The above amount is correct except as noted below:

____

____

Date______________ By____________________

Title____________________

Included in the above amount are invoices carrying extended dating amounting to $______________. It is extremely important to us that you confirm separately to our auditors the correctness of these invoices. For your convenience we have enclosed a statement of your account indicating the balance due under regular and extended dating. We have also included copies of all invoices carrying extended dating.

The extended dating is correct except as noted below:

____

____

Date______________ By____________________

Title____________________

If you find any differences, please report details direct to the auditors.

Very truly yours,

TOPPER CORPORATION

Jack J. Rose
Sr. Vice President, Finance

JJR:djc
encls.

60

A 3301

January 6, 1971

Dear Sirs:

This letter is being sent to you to enable our independent auditors to confirm the correctness of the attached statements. It is not a request for payment.

Our records on December 31, 1970 showed an amount of $__________ receivable from you. Please confirm whether this agrees with your records on that date by signing and returning this form direct to our auditors, Arthur Young & Company, 277 Park Avenue, New York, New York 10017. An addressed envelope is enclosed for this purpose.

The above amount is correct except as noted below:

____

____

Date______________ By______________

Title______________

Included in the above amount are invoices carrying extended dating amounting to $__________. It is extremely important to us that you confirm separately to our auditors the correctness of these invoices. For your convenience we have enclosed a statement of your account indicating the balance due under regular and extended dating. We have also included copies of all invoices carrying extended dating.

The extended dating is correct except as noted below:

____

____

Date______________ By______________

Title______________

If you find any differences, please report details direct to the auditors.

Very truly yours,

TOPPER CORPORATION

Jack J. Rose
Sr. Vice President, Finance

JJR:djc

[illegible] separately

A 3302

Included in the above amount are invoices carrying extended dating amounting to ________. It is extremely important to us that you confirm to our auditors the correctness of these invoices. For your convenience we have enclosed a statement of your account indicating the balance due under regular and extended dating. We have also included copies of all ~~extended dating~~ invoices carrying extended dating.

The extended dating is correct ———

A 3303

January 6, 1971

Dear Sirs:

① This letter is being sent to you to enable our independent auditors to confirm the correctness of the attached statements. It is not a request for payment. ✓

② Our records on December 31, 1970 showed an amount of $__________ receivable from you. Please confirm whether this agrees with your records on that date by signing and returning this form direct to our auditors, Arthur Young & Company, 277 Park Avenue, New York, New York 10017. An addressed envelope is enclosed for this purpose. ✓

As ~~a~~ result of the extended dating we have given you, it is most important that you confirm ~~to our independent auditors, Arthur Young~~ & Company, the balance outstanding on December ~~31, 1970~~. For your convenience, we are attaching a statement in 2 sections, namely:

1. All normal dating, and
2. All ~~outstanding~~ extended dating.

⑥ If you find any difference ~~[illegible]~~, please report details direct to the auditors.

Very truly yours,

TOPPER CORPORATION

Jack J. Rose
Senior Vice President, Finance'

JJR:mm
Enclosures

~~[illegible]~~

~~Arthur Young & Company~~:

③ The above amount is correct except as noted below:

____

____

By ____________________

Date ______________ Title ____________________

A 3304

TOPPER TOYS

De Luxe Topper Corporation

EXECUTIVE OFFICES AND PLANT
ELIZABETH, NEW JERSEY 07206
TELEPHONE: AREA CODE 201 : 351-4400

~~January 7, 1969~~ Jan 5, 1970

Dear Sirs:

This letter is being sent to you to enable our independent auditors to confirm the correctness of the attached statements. It is not a request for payment.

Our records on December 31, 1968 70 showed an amount of $______________ receivable from you. Please confirm whether this agrees with your records on that date by signing and returning this form direct to our auditors, Arthur Young & Company, 277 Park Avenue, New York, New York 10017. An addressed envelope is enclosed for this purpose.

If you find any difference or have any defective merchandise to be returned, please report details direct to the auditors.

Very truly yours,

DE LUXE TOPPER CORPORATION

Jack J. Rose
Senior Vice President, Finance

JJR:djc
Encl.

CONFIRMATION

Arthur Young & Company:

The above amount is correct except as noted below:

____

____

____
(Individual or Company, Firm Name)

By ______________________________

A 3305 P. EXH 967
MG 12/26/74

Item
181
181
206
206
206
210
210
401
401
670
670

Corp.

A 3306

12.31.69 KRESGE items not shipped

Item	Quantity Billed	Quantity Shipped	Quantity Billed less Shipped	List Price	Less 18%	Sales not Shipped	[illegible]	[illegible]
1816	6000	23376	⟨17376⟩					
1817	6000	6253	⟨253⟩					
2061	6000	9	5991	$ 28696 89		23532	392	458
2062	6000	3137	2863	10850 77		8897	311	341
2063	6000	2757	3243	15533 97		12737	393	409
2100	6000	40	5960	53580 40		43936	737	414
2101	6000	8	5992	53868 08		44172	737	352
4013	12000	49696	⟨37696⟩					
4014	12000	3624	8376	20437 44		16718	207	207
6700	4200	4	4196	37722 04		30932	737	417
6701	6000	96	5904	53076 96		43522	737	443
				273766 55	⟨49277 98⟩	2244885		

A 3307

P. EXH 468
gmb 12/26/74

TOPPER CORPORATION
107 TRUMBULL STREET • ELIZABETH, N. J. 07206
AREA CODE [illegible]

INVOICE

INVOICE NO	[illegible]
BILL OF LADING NO	
DATE SHIPPED	[illegible]
CUSTOMER ORDER NO	
DEPT. NO	[illegible]
NO. CARTONS	[illegible]
DATE OF INVOICE	[illegible]
TOPPER [illegible] NO	[illegible]

ACCOUNT NO 010-[illegible]

SHIPPING TICKET NO. 2010[illegible]

6 [illegible]

S S KRESGE C/O TOPPER [illegible]
107 TRUMBULL ST
ELIZABETH N J

S S KRESGE CO
2727 SECOND AVE
DETROIT MICH

TERMS: NET DUE 1/20/70

VIA ALREADY SHIPPED RAIL

[illegible] NO 50 [illegible]

QUANTITY	TOPPER STOCK NO		DESCRIPTION		PRICE	GROSS AMOUNT	%	DISCOUNT AMOUNT	NET [illegible]
[illegible]	[illegible]	23,376	[illegible] PARTY	L	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	6,253	[illegible] & PLAY	L	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	9	[illegible] PAPER	L	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	3157	[illegible] DELIGHT [illegible]	L	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	2757	[illegible] FLORIST [illegible]	L	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	40	[illegible] & THINGS	L	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	8	[illegible] THINGS	L	[illegible]	53,94[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	49,696	[illegible]	L	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	3634	[illegible]	L	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	4	[illegible]	L	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	96	[illegible]	L	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

TOTAL QUANTITY	PAGE NO	TOTALS			
[illegible]	1		[illegible]	[illegible]	[illegible]

1/2

[illegible]

F. O. B. FACTORY ELIZABETH N. J.

CUSTOMER [illegible]

Prepared by	Index No
[illegible]	6

A 3308 P. EXH 964
MG 12/26/74

PX 9

Item #	Quantity Billed	Quantity Shipped	Quant. billed but not shipped	$ List Price	Less 18%	Net
2061 S	3000	-0-	3000	$ 14370 00		
2062 S	3600	-0-	3600	13644 00		
2063 S	2400	1224	1176	563304		
2064 S	1200	-0-	1200	8388 00		
2070 S	3600	-0-	3600	1328400		
2071 S	4800	-0-	4800	2131200		
2073 S	3600	24	3576	1319544		
2074 S	3600	-0-	3600	1328400		
2075 S	3600	24	3576	1319544		
2078 S	4800	3468	1332	265068		
4001 S	1800	336	1464	628056		
4002 S	1800	-0-	1800	790200		
4200 S	1200	1200	-0-	-0-		
4204 S	6000	4320	1680	670320		
				13984236	(2517162)	11467074

Index No. ⑩

X 997 A 3309

3-31-71

[illegible] sales thru 3/31/71

	Customer	500	501	502	503	530	532	563	701	801	4011	4026	4412	4010	Total
1	AMERICAN LEISURE							24							565.25
2	[illegible]	14	9	19	6	18	5	13	26	31	10	9	14	1	2,571.23
3	CIRCUS WORLD (GREAT [illegible])		16	12					12	12			18		2,941.40
4	CLAREA	997	[illegible]	1121			134	915	46	24	69		127		1,747.73
5	DAVIS							3,000				170	170		1,006.[illegible]
6	EASTERN TOY							1,205					100		9,777.66
7	GLASS [illegible]							3,2[illegible]			264	3[illegible]	1,264	2[illegible]	2,272.5[illegible]
8	L N [illegible]							1,00[illegible]			79		270		16,871.97
9	J KORVETTE							2,4[illegible]			27	4[illegible]	2[illegible]		8,172.[illegible]
10	ZAYRE							3,000							3,362.71
11	S & M								5[illegible]						711.[illegible]
12	TAMPSON	27						5[illegible]		13		10	17		2,64[illegible]
13	TOY TOWN USA		8					12[illegible]	21	17					4,52[illegible]
14	[illegible]TON DISTR.		40		10			44		12					12,207.44
15	WASSERMAN		70	120					4,5[illegible]	1,6[illegible]					10,107
16	AYRWAY STORES		34												
17		242	224	314	16	16	469	56,[illegible]	5,574	1,710	440	646	1,363	366	
20		6,601.[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	32,798.87
															64,962.23

P. EXH 997
12/26/74 MG

Prepared by [illegible]
Date 4-22-71

U-22

A 3310

P. EXH 998
12/26/74 MG

TOPP

SHIPMENTS

AMERICAN LEISURE
ARLANS
AYRWAY STORES
BARKERS
[illegible]
CIRCUS WORLD
[illegible] DISTR.
DAVIS BROS
EPSTEIN TOY
GLOBE WHSLE.
[illegible]
E.J. KORVETTE
LASH DISTR.
ZAYRE
[illegible]
WASHINGTON DIST.

TOTAL PIECE
TOTAL PIE

NET $

SHIPMENTS OF M
SHIPMENTS OF MDS

TOTAL

Prepared by

Date

Index

U-

A 3311

24

TOPPER CORPORATION

SHIPMENTS FROM TERMINAL WHSE - 7/1-7/14/71

	500 DPAN	501 GLORI	502 ANS	503 DALE	504 GARY	507 JESSIE	512	520 DA	521
AMERICAN LEISURE	12							12	
ARLANS								29	
ARROWAY STORES		34		2		2		435	
BARKERS								15	
BERGERS	4	9	9	6					
CIRCUS WORLD		18	18						
CLASP DISTR.	197	25	131		[illegible]	101	5	[illegible]	
DAVIS BROS		100	100					500	300
EPSTEIN TOY								275	[illegible]
GLOBE WHSLE.	457	192	190	25		167		1751	45
LNFLOES	114	48	48	17		31		435	11
EJ KORVETTE	85	29	50	150	144			317	19
CASH DISTR.								250	
ZAYRE								1717	
TOMARBON	32	22	54	13		53		1357	6
WASHINGTON DIST.		40	45	10	17	17	5	19	3
TOTAL PIECES	701	585	625	210		1897		3587	12[illegible]
TOTAL LBS		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12	[illegible]	[illegible]
NET $	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]		[illegible]	[illegible]
$		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SHIPMENTS OF MDSE. BILLED INTO WHSE PRIOR TO 7/1/71 672658.4

SHIPMENTS OF MDSE BILLED INTO WHSE AFTER 7/1 146204.50

TOTAL 818[illegible]

Prepared

Date

5-31-11

A 3312

521 [illegible]	522 [illegible]	510 D.C.	550 Music Bd.	551 Survey Pattern	552 Pur. Book	562 Doc. Circ.	601 Output Asst.	701 Output Asst.	801 Output Asst.	4011 Gen. Asst.	4226 Asst.	4111 Cult. Asst.	4210 [illegible] Asst.	Japan Goods Invoice Prior to 1/1/4[illegible]	Amount Invoice After 1/1/4[illegible]
2	2					24								9126[illegible]	
														316571	
														80402	
	34		111	111	150	[illegible]	60	1		7	1	21			1612593
	4	4	36	54		101		12	12	9	9	9	1	382553	142[illegible]
			36	72				12	12			11		354213	
[illegible]	134	171	782	720	180	912	12	48	82	69	1.1	135		3461142	2610843
300	300		600	672		3000	252	250	152		100	100		7718342	
[illegible]	[illegible]					1200						100		212252	
457	[illegible]	160	1277	1272	324	3[illegible]	300	[illegible]	2004	264	644	121	264	351[illegible]	409513
110	11[illegible]	[illegible]	324	324	54	1205		667	534	70	80	270	72	7727432	337711
197	117	117	77	708		2400				27	125	34		5402342	147[illegible]
	[illegible]													1775[illegible]	
		117		12		36 1200								272262	715307
61	27					[illegible]	75	120	66		17	17		1894[illegible]	151[illegible]
3	30	17	96	96		14[illegible]			12					4431[illegible]	4344[illegible]
1231	1358		3918	5120	588	14510	625	3754	2872	439	644	1949	265		
1[illegible]	136	[illegible]	11[illegible]	156	15	37[illegible]	1[illegible]6	54	13	7	7	[illegible]1	7		
[illegible]	[illegible]		[illegible]	94178	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6726264	
[illegible]	[illegible]	[illegible]	[illegible]	2112	[illegible]	81121	[illegible]	[illegible]	[illegible]	1136	[illegible]	[illegible]	[illegible]		1112480

[redacted]

Index No. 4-2-5

A 3313

3-3/5711

TOPPER CORPORATION

SHIPMENTS FROM TERMINAL WARE- [illegible]

	500	501	502	503	504	507	510	520	521	522	530	562	[illegible]	556	563	601	701	801	4018	4026	4410	523	527	[illegible]	[illegible]
APLAN'S								19																	32525
CARKERS	20	21		2	21	2	31	14	51	27	25				17.4		27		27	17	27	52	20		[illegible]
BENDERS		3	5			1			5	1		18	20				24	19	4		7	5			177
CLASSA DISTR.																									[illegible]
LASH	50		75				117		725				57		1800							1102	72		[illegible]
ZAYRE																	2400	2400							[illegible]
S+M		400 (400)	400 (400)														(2615)	(2000)							(14000.00)
STD.																									[illegible]
TOY TOWN USA		8	8												120		27	17							2247
WASSERMAN		20	120						7164	500							4500	1500							12265
TOTAL PIECES	50	28	204	2	21	30	201	19	7418	501	22	18	97		1920		5134	1536	27	17	7	13	[illegible]		[illegible]
NET $	[illegible]	[illegible]	[illegible]	[illegible]	601.04	701.43	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		345,572. (14091.3)
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]				[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			2014777.21
	[illegible]	[illegible]	[illegible]						[illegible]	[illegible]		[illegible]	[illegible]		[illegible]		[illegible]	[illegible]	[illegible]		[illegible]				466407
							7/1/ - 3/3		7/1 - 7/4		7/1/														
SHIPMENTS OF MDSE BILLED INTO WARE PRIOR TO 7/1/71							2074772.?		6772672.?		7821063.?														
AFTER 7/1/71							466407.		1432097?		1725157														
TOTAL							2541177?		8185334?		10745?20														
											[illegible]														

P. EXH 999
12/26/74 MG

Prepared by:
Date

Index No.
U-24

TOPPER CORPORATION

TERMINAL WIRE RECAP

	U2.1	U2.2		U-2.3					
	[illegible]	LESS: SHIPMENTS [illegible]	BALANCE [illegible]	IN TRANSIT [illegible]	LESS: SHIPMENTS [illegible]	BALANCE [illegible]	1971 NEW BUSINESS	LESS: SHIPMENTS [illegible]	[illegible]
AL PEG	[illegible]		[illegible]				[illegible]		[illegible]
AMERICAN HARDWARE	[illegible]		[illegible]				-0-		-0-
AMERICAN LEISURE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
[illegible]				[illegible]	[illegible]	[illegible]	-0-		-0-
BENSONS	[illegible]	[illegible]	[illegible]				[illegible]	[illegible]	[illegible]
[illegible]	[illegible]		[illegible]				[illegible]		[illegible]
[illegible]	[illegible]	[illegible]	[illegible]				-0-		-0-
CHILD WORLD				[illegible]	-0-	[illegible]	[illegible]		[illegible]
CLARK DISTR.	[illegible]	[illegible]	[illegible]				[illegible]	[illegible]	[illegible]
DAVIS BROS.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
EASTERN TOY	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-0-		-0-
[illegible]				[illegible]	-0-	[illegible]	-0-		-0-
[illegible]	[illegible]	[illegible]	-0-	[illegible]	[illegible]	-0-	[illegible]	[illegible]	-0-
[illegible]	[illegible]	[illegible]	-0-	[illegible]	[illegible]	-0-	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]		[illegible]				[illegible]		[illegible]
LAKE DISTR.				[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
ZAYRE	[illegible]	[illegible]	[illegible]				[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]				-0-		-0-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOY TOWN [illegible]	[illegible]	[illegible]	[illegible]				-0-		-0-
TOY FAIR	[illegible]		[illegible]				-0-		-0-
WASHINGTON DISTR	[illegible]	[illegible]	[illegible]				[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	-0-				[illegible]	[illegible]	[illegible]
[illegible] STORES	[illegible]	[illegible]	[illegible]				-0-		-0-
[illegible]							[illegible]	[illegible]	[illegible]
[illegible]							[illegible]		[illegible]
TOTAL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			
INTERSTATE							[illegible]		[illegible]
OSCO							[illegible]		[illegible]
							[illegible]	[illegible]	[illegible]

[illegible]

4.2 %

A 3314

PX 1020

A 3315 P.-EXH 100

12/26/74 MG

Tolter Corporation

Terminal Whse. Rcpt 8/31/71

CUST	11/1/70 Physical	Less: Shipments Thru 8/31/71	Balance 8/31/71	In Transit 12/31/70	Less: Shipments Thru 8/31/71	Balance 8/31/71	1971 New Billings	Less: Shipments Thru 8/31/71	Balance 8/31/71
A.G. Mnts (Alfes)	[illegible]	161460	[illegible]				2825407	422344	[illegible]
American Hardware	[illegible]		[illegible]						
American Leisure	1162424	5942	[illegible]	2757205	100223	2457723	936221		952321
Fillans				3023633	384466	3456016			
Hy Hart	[illegible]	6405	[illegible]						
Lockers							2497616	982297	1421207
Benders	2753907	1240230	1613987				1131873	2417017	1525174
Carmian Hockey	[illegible]	6775	1450166				3365184	1205772	2179210
Circus World	[illegible]	2512[illegible]	4819[illegible]						
Child World				3192784	1042[illegible]	7132137	[illegible]	485724	1160[illegible]
Scheer	1176177	270635	1586730				3132[illegible]	3[illegible]	3[illegible]
Days	5246[illegible]	1802117	3440117	5152391	[illegible]	4550001	2734[illegible]	354716	2063438
Dispensa							4729047	427002	4502[illegible]
Eastern Toy	1803365	700047	1163006	2084115	377054	1707942	313178		3591[illegible]
Allen Forest				2281521		2281321	116112		[illegible]
Globe Whole	[illegible]	[illegible]	-0-	2607787	2602787	-0-	92431	92437	-0-
LN Store	[illegible]	[illegible]	-0-	653011	653011	-0-	55220	55220	-0-
Interstate							[illegible]	41912	[illegible]
Korvette	[illegible]	[illegible]	3565765	[illegible]	[illegible]	3567627	1759[illegible]	1443[illegible]	[illegible]
Kresge	[illegible]	[illegible]	942[illegible]				[illegible]		[illegible]
Lash				4526702	3255[illegible]	1400062	772477	[illegible]	[illegible]
Zayre	[illegible]	1363110	786141				1744[illegible]	8042277	169678
Osco							22175[illegible]	43154	22084[illegible]
S & M	[illegible]	[illegible]	1460[illegible]						
Shopko							424735	3851133	358104
Tandem	[illegible]	[illegible]	1191154	2330274	1172[illegible]	2157862	441472	119147	[illegible]
Toy Town U.S.A.	[illegible]	[illegible]	1027164						
Twin Fair	[illegible]		2111712						
Washington Distr.	[illegible]	[illegible]	[illegible]				1612[illegible]	1352[illegible]	47797
Lionel Leisure	[illegible]	[illegible]	-0-				3774647	3426154	3479[illegible]
Yankee Dept.							[illegible]	41727	482304
JC Penney							4120521	962714	[illegible]
Totals	[illegible]	4175018	22026184	31296200	5550413	25649562	44011882	6262071	37749817
Woodbridge Whse.							1112194		1172[illegible]
Total							5512[illegible]	6252477	[illegible]

Total 1/4	114423[illegible]
Total out	17156[illegible]
Per G/L	771551 CK

Terminal Sales - August 31, 1971

Prepared by Client/EZ

Date 12-3-71

Index No. UA-8:1

A 3316 R. EXH 1002

12/26/74 MG 1/31/72

Terminal Warehouse [illegible] 9/30/71

Topper Corporation

Terminal Whse. Recap 9/30/71

		12/31/70 Reserve	Less Shipments ① 1-1-71 – 9-30-71	Balance ① 9/30/71	Entered ② 12/31/70	Less Shipments ② 1971	Balance ① 9/30/71	1971 Mo. Receipts	Less Shipments thru 9/30/71 ②	Balance ① 9/30/71
1	K & B Bros (Lico)	5556203 ~	262260	5606543				2875407 ~	[illegible]	4453153
2	Uppercraft Arcade	# 5177128 ~		5166136						
3	American Leisure	12652226 ~	52960	12599266	27573357 ~	2092366	25480691	8969760		8969760
4	Aleans				36234330 ~	384166	34850164			
5	Airway	# 24120034 ~	60403	24060231						
6	Breeco							2519[illegible]	1253236	12659949
7	Bennies	2953279 ~	1342320	1613059				81523	2335[illegible]	5792670
8	Charmore-Arcade	4522[illegible] ~	121092	440279				3385146	1152[illegible]0	2233526
9 ×	Circus World ②	# 5067154 ~	204745	4814939						
10 ×	Child World Ⓐ VA2 9/20				510[illegible]96 #	1234411	6961875	7043935	634109	1412226
11	Classé	15576190 ~	4316934	15257256				35398009	1557171 +	19556292
12	Ellis	5946318 ~	1502199	3444119	51520545 ~	5970544	45550001	79359144	2709407	26671697
13	Dyvenso							4570727	1111082	3759145
14	Eastern Toy	1503053 ~	700047	1103006	70841156 ~	4484447	16352109	353175		353175
15 ✓	Alex Forst				2751326 ~		2751326	186818 +		116818
16 ×	Game Wheel	9797[illegible] ~	9797666	-0-	70227559 ~	42602959	-0-	926034	926034	-0-
17	[illegible] Globs	2207234 ~	2207234	-0-	6530199 ~	6530199	-0-	335047	335047	-0-
18 ×	Interstate							7075436	ϕ 15606317	[illegible]
19 ×	Kurvette Ⓐ VA2 9/20	6469444 ~	3208137	3261303 ×	44785534 ~	5881351	35557401	140113952	9431100	13587094
20 ×	Kresge	10513223 ~	16712491	91370750 ×				4118537		4118537
21	Lasu				43262079 ~	3433170	39828909	729437	18919	753578
22	Lake	1650101 ~	1650101	-0-				10449029	8751298	1696731
23 ✓	Disco							22588345 +	3385601	19207714
24	S & M	# 15392551 ~	1343290	14009461				4247352	3859177	388175
25	Sanco									
26	Tamaron	13713030 ~	4156291	9557339	27302756 ~	2473410	25229346	8447675	709431	3735444
27	Toytown USA	# 7663[illegible] ~	634495	7029169						
28	Twin Fair	# 8193[illegible] ~		8193242						
29 ✓	Washington Distr.	3522730 ~	1458679	2064051				1556233 +	1351236	457197
30	Lionel Leisure Ⓑ VA2 5/30	15365544 ~	15365544	-0-				37745649	3858703	33887346
31	Yankee Distr.							6280704	1430651	4549[illegible]
32	J.C. Penney							29203578	19226392	9967186
	Totals UA1	252235355	65403448	213231911	312047053	56523340	255623713	468202088	144551856	323650232
	Woodward Wise							117219026	5841243	111371623
	Total							555421114	150392219	435021575

① [illegible] 15a

② [illegible] Cf World / 5a

+ Open [illegible] receiving [illegible] signed by NYT Whse [illegible]

Examined 1971 [illegible]

~ Per 12/31/70 w/p's 5a

✓ ✓ 24a

× Agreed to IBM [illegible] VA2

~ from U-A.4

* from U-A.5

ϕ from U-A.3 1/2

②+⑤+⑧ = ①+①+①

Ⓐ 1971 Shipments were tested

Prepared by PAC/DTK/JP

Date 10/26/71

Index No. U-A

A 3317

Tappan Corp

[illegible] 9/30/71 1/31/72
unaudited

Balance 9/30/71

9/30 [illegible]	Less Summons	Balance 9/30	Entries @12/31/70	Less Summons	Balance 9/30/71	1971 [illegible] Billings	Less Summons	Balance 9/30/71
5562032	26440	5600?3				2875407	422274	2453133
5178??		5155??						
1265???	5?9??	12579??	2757325	2012466	2548069?	8969760		8969760
			3625330	358166	3465014			
24120034	60423	24010231						
						2518??	1753?236	1765845?
?553?9?	1340?3?	161305?				815?3?	2357652	579?670
4?72?91	11108?	4150???				3385186	1152140	2232526
5069151?	204?45	4614935						
			510??86	123441?	6961875	7075735	674107	1412226
1?576?93	4316934	1525750				35398079	1567171?	19526?92
5?4631?	1802199	3?44?19	51605545	5770544	4555000?	79359144	2709107	2667?097
						4570?27	1111082	3759145
1??853?	700047	110300?	?684115?	1?84?47	11352109	353175		3531?5
			2251321?		2251321?	116118		116118
9797?66	9797666	-0-	?0?7856	?2602785	-0-	920035	920035	-0-
220723?	220723?	-0-	6530199	6530199	-0-	338007	338007	-0-
						4705751	1960631?	[illegible]
?4694?4?	3208137?	3261303	?6471553?	5895135	3585?7?01	14011385?	4431?0?	1352?09?
?1,1??741	167124?9	91390750				4118557?		4118557?
			4326207?	3633170	3582990?	7??47?	18919	753578
1658101	1658101	-0-				1094?0?9	87?2?98	1696721
						2257?315	3385401	1920?714
?5?9?51	1343370	1400?461						
						4247356	3859177	388175
13717?30?	4151?79	9551339	?130?7?0?	2473410	2529316	8447805	709431	3738?1?
7663??	639995	7029169						
5199?2?		5199?2?						
3522?2?	1452679	2070051				1566733	1355??	477?07
?12655?4	12655??	-0-				3774562	3858703	3887?46
						6280709	1?2?051	4549?9?
						2920358	1922?3?0	4967?56
5?03535?	6540??48	21362?911	312067052	5857?340	2536?3?12	46820205?	14455?556	32365023?
						11?219026	58?2343	111371?3
						5?5021?14	15039921?	4352?15?5

Tran. In 1179503575
Tran. Out 277???007
Bal. [illegible] 9021?7?16

∿ Per 12/31/70 w/PS (5)a
✗ ✓ ✓ ✓ (2)4a
✗ Agrees to IBM run VA2 * from U-A.5
~ from U-A.4 ɸ from U-A.3 2/2

(4)+(5)+(8) = Net ship / EDP Bal b/o
(7)+(9)+(10) = - [illegible] - net ship EDP [illegible]

[illegible]ments were tested

Prepared by PAC/[illegible]
Index No

A 3318 P. EXH 1015
12/26/74 MG

TOPPER CORPORATION

SALES - GROSS
YTD 12/31/70

A/C 303.00.00

①	SALES - GROSS - YTD B. SUM. 12/31/70			($832721.039
✓	LESS: RETURNS YTD C. SUMMARY 12/31/70			39233076
				X (79348896
	PLUS: J/E 1.110.00 RESERVE FOR SALES RETURNS - JAN. 1970			(10000000
	LESS: J/E 1.115.00 SALES IN DEC. 1969 AND BILLED JAN. 1970			1056901
	J/E 1.162.00 TO ACCRUE 1970 ESTIMATED RETURNS			10000000
				(792432060
⑦	CREDIT SUMMARY MISCELLANEOUS YTD 12/31/70			√5823042
	LESS: AMOUNT TO RESERVE G/L 1-1-70			(2425000
	COST OF SALES - FREIGHT IN RETURNS			(√73632
	✓ ✓ ✓ - FREIGHT OUT			(288719
	ADVERTISING - OTHER			(62871
⑧	SUSPENSE			(49537
	RAW MATERIALS			(42876
	BEAD LINES			(1711650
	N.J. SALES TAX			(1000
	SALES - CANADA CHARGED MEXICO - ADJUSTMENT			(149720
②	BILLING SUMMARY DISCOUNTS			72987723
⑥	CREDIT SUMMARY ✓			(27842506
	CASH DISCOUNTS - CASH RECEIPT BOOK	G/L	✓	√2609652
	✓ ✓ ✓ ✓ ANTICIPATION	G/L	✓	8495010
	SALES ALLOW N.Y. TERMINAL WHSE - ACCOUNTS PAYABLE	G/L	✓	496735
	✓ ✓ - CONTENTS INS ✓ ✓	G/L	✓	191823
③	BILLING SUMMARY - MISCELLANEOUS - YTD 12/31/70			(6685812
Ⓙ	DEDUCTIONS: MISCELLANEOUS BILLING SUMMARY			4778277
(JA)	SUSPENSE ✓ ✓			(2234080
	PROVISION FOR DISCOUNTS & ALLOW. (1.5%)	G/L	✓	135330330
	J/E 12.163.00 TO RECLASS DISCOUNTS A/C		✓	67894586
	J/E 12.146.00 TO RECLASS PAYMENTS FOR DISCOUNTS		✓	(3519691
	J/E 12.163.00 TO RECLASS DISCOUNTS A/C		✓	9820277
	J/E 12.203.00 TO RECORD ALLOW. ADJUSTMENT		✓	(54453

A 3319 EXH 1014

(CG4) 1/8/73

[illegible]

[illegible] SIFT

12/31/70

Good [illegible]

[illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

E-02.1
15 919 6?? 53

E-02.1
(634 7??)

15 0?? ??? 53

Good [illegible] — E-02.1 10 672 3?? 21 — 2/11/71

71%

Originally 2 [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] not [illegible]

[illegible] [illegible] 260 436

[illegible] [illegible] 65 301

325 737

355 4?2
<97 276>
157 574
<33 27?>

[illegible] [illegible] 10 ??? ???

73%

[illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

Prepared by [illegible]
Date 2/11/71

Index No.
E-02

A 3320 P. EXH 1050

am 11/8/75

Topper Corporation executive offices & plant elizabeth, new jersey 07206 tel. 201-351-4400/212-233-4380

January 6, 1971

TAMARON DISTR CORP
6495 W GOLF RD
NILES ILL

ATTN: RON TUCKMAN

Dear Sirs:

This letter is being sent to you to enable our independent auditor to confirm the correctness of the attached statements. It is not a request for payment.

Our records on December 31, 1970 showed an amount of $ 510,760.32 receivable from you. Please confirm whether this agrees with your records on that date by signing and returning this form direct to our auditors, Arthur Young & Company, 277 Park Avenue, New York, New York 10017. An addressed envelope is enclosed for this purpose.

The above amount is correct except as noted below:

[illegible]

OPEN INVOICES BILLED AS OF 12/31/70 [illegible] 844.84 *

Date 1/27/71 By

Title Account Cycle Mgr.

Included in the above amount are invoices carrying extended dating amounting to $ 430,163.86. It is extremely important to us that you confirm separately to our auditors the correctness of these invoices. For your convenience we have enclosed a statement of your account indicating the balance due under regular and extended dating. We have also included copies of all invoices carrying extended dating.

The extended dating is correct except as noted below:

NONE

Date 1/27/71 By

Title Account Cycle Mgr.

If you find any differences, please report details direct to the auditors.

*STANDARD QUALIFICATION - All receivable balances confirmed are subject to adjustment for credits due which may result from defective merchandise, advertising allowances, promotional allowances, freight allowances, warehouse allowances, financial and other discounts, other allowances, errors, other adjustments; some (over)

Very truly yours,

TOPPER CORPORATION

Jack J. Rose

Jack J. Rose
Sr. Vice President, Finance

JJR:djc
encls.

326

A 3321

or all of which may not be ascertainable at the date above requested.

A 3322 ACCOUNTS RECEIVABLE
(OVER $75,000)

P. [illegible] 1057

Am 1/8/75

PBC
-JCB
4/20/71

E1

1/1

A 3323

(over $75,000)

	CUSTOMER	12/31/70 A/c Rec Balance	Extended Dating		3/31/71 A/c Rec Balance	Extended Dating	12/31/70	3/31	not paid by 3/31	%			Credit	Comments
1	Afleg	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
2	American Locomotive Co.	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
3	American Toy	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
4	Ace Sales	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
5	Adams Dist.	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
6	A&R Way Stores	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	85% *				[illegible]
7	Barkers	[illegible]			[illegible]	[illegible]	[illegible]	-0-	[illegible]	100%				[illegible]
8	Best Discounts	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
9	Blatt	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
10	[illegible] Berkey	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	99% *				[illegible]
11	Child World	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	90%				[illegible]
12	Child World Inc	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	-0-	[illegible]	100%				[illegible]
13	City Products	[illegible]			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
14	Clover Dist. Detroit	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
15	Consolidation Athletic	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
16	Consolidated Drug Stores	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	-0-	[illegible]	100% *				[illegible]
17	Davis Bros.	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	51%				[illegible]
18	Eastern Toy Dist.	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
19	Elmer Corp.	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]		[illegible]
20	Federal Wholesale Toy	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]		[illegible]
21	Forchheimer Division	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	-0-	[illegible]	[illegible]
22	Alex Ferst	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
23	Gateway Sporting	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
24	Globe Stationery N.Y.	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
25	[illegible] Chicago	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
26	L. [illegible] Inc. Mich	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
27	Grandway	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
28	W.T. Grant	[illegible]			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
29	Greenman Bros. N.Y.	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
30	Harco	[illegible]			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	-0-	[illegible]	[illegible]
31	Hays Bros.	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
32	S.H. Horowitz	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
33	Interstate Stores	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
34	[illegible] Toy	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]		[illegible]
35	A.W. [illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]		[illegible]
36	Kipp Bros.	[illegible]			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
37	E.J. Korvette	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	65% *				[illegible]
38	S.S. Kresge	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]		[illegible]
39	L&R Sales	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
40	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
41	Lee Dist.	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	85%				[illegible]
42	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
43	[illegible] Stores	[illegible]			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
44							[illegible]	[illegible]	[illegible]	63%				

* [illegible]

A 3324 [redacted]

A 3325 P. EXH 1059

topper

em 1/8/75

Updated Confirmation Statistics 12-31-70

CASH RECEIVED thru 2-28-71 + clean confirms rec'd to 3-19-71
+ partial ✓ ✓ ✓ ✓
+ denied or deniable confirm exceptions rec'd to 3-19-71

Totals of customer statements – Credits on Detail A/B not shown on customer statements for customers who did not confirm – unconfirmed sales in NY [illegible] w/H at 12-31-70 – Ad & Rebate allowance for unconfirmed A/CS

$$\frac{12\,191\,934 + 14\,616\,718}{39\,790\,323 - 575{,}000 - 656{,}061 - (65{,}000 + 2049600)} =$$

$$\frac{26\,808\,652}{36\,445\,151} \simeq 73.5\%$$

Adjusting above for (1) A/R where no confirm requested
(2) Probable portion of return reserve

$$\frac{26\,808\,652 + 150000 + (100-73.5)(1{,}000{,}000)}{36{,}445{,}151} =$$

$$\frac{26\,808\,652 + 150{,}000 + 265{,}000}{36{,}445{,}151} = \frac{27{,}223{,}652}{36{,}445{,}151} \cong 75\%$$

Also, there is the bad debt reserve of 570,000

Prepared by EZ
Date 3-30-71

Index No. E.03

C A 3326 [illegible] 1067

Am 1/8/75

Topper Corp.

3/3-1/71

TOPPER CORPORATION

REDATING SCHEDULE

1971

ACCOUNT	AMOUNT	Discount on credited invoices allowed Pay ①	Total credited
DAVIS BROS.	24777[illegible]		
GLOBE STATIONERY	155[illegible]		
GREENMAN BROS.	59814[illegible]		
TIMES SQ. STORES	35333[illegible]2		
CONSOL ATHLETIC - DETR	11875031	[illegible]	[illegible] E4
KEI[illegible] (F[illegible]HEIMER)	1307547		
CIR[illegible] WORLD	127[illegible]723		
CONSOL ATHLETIC - ST. LOUIS	4094559		
[illegible]	256[illegible]		
[illegible]	4712162		
S+M CO.	ʌ 2492770		
[illegible]	ʌ 47167		
DISPENSATION	ʌ 171377		
[illegible] SALES	2[illegible]		
[illegible] IND	2[illegible]15[illegible]		
[illegible]	ʌ 1313630		
AMERICAN TOY	ʌ 12510357		
BLATT DISTR.	ʌ 11201023	88000 -	300,000 E4
FEDERAL WHSLE.	1318722		
NORTHERN [illegible]	ʌ 23002733	45000 -	278000 E4
PENSICK + GORDON	20064553	149000 -	350000 E4
[illegible]	1053[illegible]		
[illegible] ROSE	ʌ 376[illegible]		
[illegible] SALES	4[illegible]		
CHAPMAN [illegible]	1850[illegible]		
JENNINGS SHEPHERD	8[illegible]		
TIP TOP [illegible]	11[illegible]		
BEST [illegible]	97367		
L+N SALES	ʌ 6402011		
MILTON [illegible]	1127[illegible]	39000	167000 E4
PITTSBURGH WHSLE	ʌ 51[illegible]	28309 -	240000 E4
[illegible]	ʌ 92[illegible]4	59300	162000 E4
S[illegible]	ʌ 37[illegible]		
MARTIN [illegible]	ʌ 66[illegible]2		
JUVENILE DIST.	ʌ 3[illegible]		
TOTAL	221314673		

ʌ amount traced to agreement letter

① Figures drawn from a schedule prepared by S. [illegible]

Prepared by P.C.

Index No. -1

A 3327

[illegible] 1972 [illegible] 12-317

[illegible] for [illegible]

Sales [illegible] records [illegible] specifying [illegible] — No [illegible]

(1) Some [illegible] full discounts [illegible] [illegible] whose merch. was selling

May 1st – signed cust. by cust.

(3) By [illegible] program merchandise not really was [illegible] as anticipated for customers [illegible] [illegible] understanding with salesmen that payment would be due when merchandise was sold by customer (some merchandise would be withdrawn from NY [illegible] only when customer was ready to sell it, [illegible] from [illegible] would [illegible] sale by customer.) To verify sales by customers [illegible] payments due from customers salesmen were to [illegible] inventories at customer locations beginning May 1, 1971.

payment "when sold" [illegible]

[illegible] records (minutes)

(4) When customers [illegible] merchandise [illegible] they got a priced confirmation of delivery that should have been [illegible] them to know what they had taken from [illegible] and therefore what they should pay. [illegible] dismissed these. [illegible] they did not understand that the confirmation of delivery were a basis for their expected payments.

Some paid confirmation

Some paid [illegible]

Some delayed paying

P. EXH 1091

EL 1/20/75

E2

1-19-77.

A 3328

Discussion [illegible] 1972 [illegible] 12-31-

(5) Payment (of most) customers during 1971 for payment of the Spring 1971 invoices (that were billed in 1970) would appear in the A/R trial balance as unapplied cash.

(6) If a customer paid an invoice in full it would pass into history.

(7) [illegible] paid none of the '71 spring invoices during 1971.

9/1 P.H. called [illegible] says needs [illegible] invoices

Prepared by E2

Index No.

A 3329

Questions to be asked of Pm. Moss 3PM 1-14-72 for 12-31-71

(1) Is summary of morning discussion accurate? / How could these be more correctly written?	yes, [illegible]
(2) At what point in time were the terms of the Spring 1971 program changed by the customer from 5/71 - 8/71 to payment by the customer for merchandise as sold by him?	When P. Moss called customers in April 1971 a number of them said they were "pay as they sold" customers. [illegible] recall [illegible] (Tambay)
(a) Did this apply to?	
(1) Sales in NY firm at 12-31-70	Possibly
(2) Sales in transit to NY firm under the new program.	Possibly
(3) Sales in transit to customers under the new program	Possibly
(4) 1970 sales to customers delivered in 1970 with extended sales terms	Possibly
(5) Sales billed in 1971 where merchandise stored at NY firm.	Possibly
(6) Sales billed in 1971 where merchandise stored at [illegible]	?
(7) Sales billed in 1971 where merchandise stored at [illegible] Carlstadt Chicago Pittsburgh Baltimore Cleveland Ohio	Outside warehouses [illegible] [illegible] not going to [illegible] from [illegible]
(8) Sales billed in 1972 where merchandise delivered to customer.	No
(3) Do you think customers believed he didn't have to take this merchandise if he couldn't sell it?	yes

P. EXH 1092

RL 1/20/75

Prepared by ER 1-14-72

Index No

A 3330

[illegible] the [illegible] of [illegible] lines [illegible] for [illegible] 12-31-71

3rd

③ How many [illegible] price [illegible] of customer [illegible]? 5-1-71 thru eternity

④ Program of [illegible]? What done with data? Complete [illegible] [illegible] 1 month [illegible]

⑤ Customers interviewed? the [illegible] sent to P. Maas [illegible] since it [illegible] mixed [illegible] sales

I also sat in on the meeting with Preston Maas on [illegible] @ 3:00 P.M. The notes made by Ed [illegible] summarize well the topics discussed + P.M.'s answers. These notes agree with my understanding of the discussion which took place on the above date, and no further comments need be added by me.

Bob [illegible]
1/19/72
5:20 P.M.

[illegible] Index No.
E2

A 3331

P. EXH 1100

R L 1/20/75

December 21, 1970

PERSONAL & CONFIDENTIAL

Mr. Robert Kouler
American Hardware
Butler, Pennsylvania

Dear Mr. Kouler:

As per your conversation with Mr. Fred Rosen, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:e

A 3332

December 22, 1970

PERSONAL & CONFIDENTIAL

Mr. Arthur Euban
American Leisure Products
101 West 31st Street
New York, New York 10001

Dear Arthur:

As per your discussions with Mr. Mason Benson, this letter is to confirm that we will exchange any excess merchandise from your 1971 Spring Order on a dollar for dollar basis for any merchandise in our 1971 line.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return the merchandise on this order.

The payment for the merchandise on this order is due May 10, 1971. However, if you have not distributed the merchandise to your own warehouses by this payment date, we will at that time work with you on redating those invoices.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President – Sales

FCP:o

5

A 3333

December 16, 1970

December 16, 1970

Mr. Leon Davis
Davis Brothers
111 Midtown Bridge Road
Hackensack, New Jersey

Dear Leon:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the new 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

If merchandise on this order is not distributed by the May 10, 1971, payment date, we will work with you on additional dating. [illegible]

[illegible] for a happy holiday season. Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:se
[illegible]

A 3234

December 17, 1970

PERSONAL AND CONFIDENTIAL

Mr. William Bernstein
Federal Wholesale Toy Company
14407 Alondra Boulevard
LaMirada, California

Dear Bill:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we asked you to place for any merchandise in our 1971 line..

If merchandise on this order is not distributed by the May 10, 1971, payment date, we will work with you on additional dating.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:o

bcc: J. Gross

A 3335

PERSONAL AND CONFIDENTIAL

[illegible] 11, 1970

December 16, 1970

Mr. Stanley Silber
Interstate Stores, Inc.
111 Eighth Avenue
New York, New York

Dear Stan:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we have asked you to place.

This exchange of merchandise to take place when mutually agreed upon and on merchandise to be agreed upon.

[illegible], that you will have the right to return this [illegible]

Very truly yours,

TOPPER CORPORATION

[illegible] CORPORATION

Fred C. Pierce
Vice-President - Sales

FCP/c

[illegible]

December 21, 1970

Mr. Tom Patterson
Grandway Stores
East 51 Midland Avenue
Paramus, New Jersey

Dear Tom:

This letter is to confirm that Topper will exchange excessive inventory if created by your 1971 Spring Order, dollar for dollar, for any merchandise in our 1971 line.

Our T.V. expenditure for January, February, and March of 1971 will be approximately $3,000,000.

It is further agreed that should Topper fail to support this merchandise with T.V. as we have supported our merchandise in the past, that you will have the right to return this merchandise.

You are buying this merchandise (as per attached sheet) less 10%, and then again less 10%. These dollars apply to any merchandise that you wish to exchange at a later date, dollar for dollar.

Very truly yours,

TOPPER CORPORATION

Mason Benson

Mason Benson
Vice President - National Sales

MB:m

Att.

A 3337

December 21, 1970

PERSONAL & CONFIDENTIAL

Mr. Mickey Abrams
Marond Distributors
240 Roberts Avenue
Philadelphia, Pennsylvania 19144

Dear Mr. Abrams:

As per your conversation with Mr. Fred Rosen, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:o

A 3338

December 21, 1970

PERSONAL & CONFIDENTIAL

Mr. John Refergiato
Twin Fair
Walden & Dick Road
DePew, New York

Dear Mr. Reforgiato:

As per your conversation with Mr. Fred Rosen, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we asked you to place for any merchandise in our 1971 line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:e

A 3339

December 22, 1970

PERSONAL & CONFIDENTIAL

Mr. Justin Kalish
Yankee Distributors
18718 Borman Avenue
Detroit, Michigan

Dear Justin:

As per our discussions, this letter is to confirm that we will exchange any excess merchandise from your 1971 Spring Order on a dollar for dollar basis for any merchandise in our 1971 line. This order, as you know, gives you a discount of 10% and an extra 8% which is available on a one-time only basis for this promotion only.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return the merchandise on this order.

The payment for the merchandise on this order is due May 10, 1971. However, if you have not distributed the merchandise to your own warehouses by this payment date, we will at that time work with you on redating these invoices.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:e

A 3340

PERSONAL AND CONFIDENTIAL

December 16, 1970

Mr. Shepherd Freed
Eastern Toy
533 Mineral Spring Avenue
Pawtucket, Rhode Island

Dear Shep:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we have asked you to place.

This exchange of merchandise to take place when mutually agreed upon and on merchandise to be agreed upon.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWH:c

A 3341

PERSONAL AND CONFIDENTIAL

December 22, 1970

Mr. Shepherd Freed
Eastern Toy
533 Mineral Spring Avenue
Pawtucket, Rhode Island

Dear Shep:

As per our conversation, this letter is to confirm that we will exchange any excess merchandise created by your order # 3100 dated 12-18-70.

The payment for the merchandise on this order is due $20,000.00 January 18th, the balance one-half May 10th, 1971, and one-half September 10th, 1971. However, if you have not distributed the merchandise to your warehouses by these payment dates, we will at that time work with you on re-dating the invoices.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes

Alex W. Hughes, Jr.
National Sales Manager

AWH:c

A 3342

December 7, 1970

Mr. John E. Bricker
Ketchum Distributors, Inc.
~~Forchheimer Division~~
600 North Cassady Avenue
Columbus, OHIO 43219

Dear Mr. Bricker:

Thank you for your letter of November 28th. Your understanding is completely correct regarding paragraphs 1, 2, 3 & 4. Regarding paragraph 5, as per previous discussions, this letter confirms our agreement to exchange dollar for dollar any excessive inventory created by the new 1971 Spring Order which we have asked you to place.

This exchange of merchandise to take place when mutually agreed upon and on merchandise to be agreed upon.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWH:c

A 3343

S&R

KETCHUM DISTRIBUTORS INC. FORCHHEIMER DIVISION
600 NORTH CASSADY AVENUE COLUMBUS, OHIO 43219 (614) 253-4901

November 28, 1970

Topper Corporation
200 Fifth Avenue
New York, New York 10010

Attention: Mr. Alex Hughes, Sales Manager

Dear Mr. Hughes:

This letter is in reference to our order placed with your firm for various items in your 1971 Spring line of merchandise.

It is my understanding that this order is written with the following terms and conditions:

1. Terms: 2% - ½ due May 10
   2% - ½ due August 10
2. Early Buy Discount of 4% to be deducted from the invoice
3. On any merchandise shipped in December and January there will be an additional 6% off the invoice if it is paid to Topper by January 20.
4. Prices: A discount of 10% and an additional 10% off the prices stated on your spring order form.
5. If at Toy Fair or in July, we decide that we have items that we do not need or want, Topper will take this merchandise back to their factory and exchange it for new 1971 Fall merchandise on a dollar-for-dollar basis. Ketchum Distributors will not be penalized in any way for these merchandise returns.

It is my understanding that Topper Corporation will begin to ship this merchandise December 26, 1970, on an as-ready basis.

Please confirm to me in a letter by December 10, that the above terms and conditions are correct. Do not ship any merchandise until this confirmation is in my hands.

Sincerely yours,

KETCHUM DISTRIBUTORS INC.

John E. Bricker

JOHN E. BRICKER
BUYER

cc: Jerry Jones

A 3344

PERSONAL AND CONFIDENTIAL

November 27, 1970

Mr. Morey Kasch
M. W. Kasch Company
4545 N. Port Washington Road
Milwaukee, Wisconsin 53212

Dear Morey:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar any excessive inventory created by the New 1971 Spring Order which we have asked you to place.

This exchange of merchandise to take place when mutually agreed upon and on merchandise to be agreed upon.

Very truly yours,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP/
ees

A 3345

PERSONAL AND CONFIDENTIAL

December 22, 1970

Mr. Lew Yaffa
Child World, Inc.
25 Littlefield Street
Avon, Massachusetts 02322

Dear Lew:

As per our conversation, this memo is to confirm that we will exchange any excess merchandise from your 1971 Spring order on a dollar for dollar basis for any merchandise in our 1971 line.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return this merchandise.

The payment for the merchandise on this order is due May 10th, 1971. However, if you have not distributed the merchandise to your own stores by this payment date we will at that time work with you on re-dating the invoices.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWH:c

A 334S

December 10, 1970

Mr. Murray Halpern
Tee Vee Toys, Inc.
93 Seveland Road
Newton, Massachusetts 02159

Dear Murray:

This memo is to confirm that Topper will exchange excessive inventory if created by your 1971 Spring Order dollar for dollar for any merchandise in our 1971 line.

It is further agreed that should Topper fail to support this merchandise with T.V. as we have supported our merchandise in the past, that you will have the right to receive re-shipping instructions.

Very truly yours,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:es

13-1791

A 3347

December 16, 1970

PERSONAL AND CONFIDENTIAL

Mr. Ron Tuckman
Tamaron Distributing Company
8455 W. Golf Road
Niles, Illinois 60648

Dear Ron:

In regards to your 1971 Spring Order, the payment terms will be $30,000 due in January with the balance being payable 1/2 on May 10, 1971, and 1/2 on August 10, 1971. If merchandise on this order is not distributed to your stores by the May 10th payment date, we will work with you on additional dating.

If the quantities on this order are excessive, we will exchange this merchandise dollar for dollar for any merchandise in our 1971 Toy Fair line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President – Sales

FCP:o

A 3348

December 9, 1970

Mr. Larry Ades
Pansick & Gordon
6501 Flotilla Avenue
Los Angeles, California 90022

Dear Larry:

As per our conversation, this memo is to confirm our agreement to exchange dollar for dollar excessive inventory created by the New 1971 Spring order which we have asked you to place for any merchandise in our 1971 Line.

It is also agreed that full T.V. support will be given on all our merchandise in 1971. Should Topper fail to support this merchandise on T.V. as we have supported it in the past, you will be entitled to receive re-shipping instructions on this merchandise.

Very truly yours,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:es
blind: cc: J. Gross (air mail - spec. del.)

A 3349

December 28, 1970

PERSONAL AND CONFIDENTIAL

Mr. Sam Greenberg
New England Trading Corporation
One Mercer Road
Natick, Massachusetts 01760

Dear Sam:

As per our discussions, this letter is to confirm that we will exchange any excess merchandise from your 1971 Spring Order on a dollar for dollar basis for any merchandise in our 1971 line.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return the merchandise on this order.

The payment for the merchandise on this order is due 1/2 on May 10, 1971, and 1/2 on August 10, 1971. However, if you have not distributed the merchandise to your own warehouses by these payment dates, we will at that time work with you on redating these invoices.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:o

A 3350

December 16, 1970

December 16, 1970

PERSONAL AND CONFIDENTIAL

Mr. Sy Ziv
Lash Distributers
10700 Tucker Street
Beltsville, Maryland 20705

Dear Sy:

In regards to your 1971 Spring Order, the payment terms will be $30,000 due in January with the balance being payable 1/2 on May 10, 1971, and 1/2 on August 10, 1971. If merchandise on this order is not distributed to your stores by the May 10th payment date, we will work with you on additional dating.

If the quantities on this order are excessive, we will exchange this merchandise dollar for dollar for any merchandise in our 1971 Toy Fair line.

Sincerely,

TOPPER CORPORATION

Fred C. Pierce
Vice President - Sales

FCP:es

3

A 3351

PERSONAL & CONFIDENTIAL

January 8, 1971

Mr. John Olsen
Thebault Olsen Company
4630 Milwaukee Avenue
Chicago, Illinois 60630

Dear John:

This letter will confirm our conversation regarding your Spring Order. We will exchange any excess merchandise on a dollar for dollar basis for any merchandise in our 1971 line and you will retain the discount you have earned.

While the freight on exchanges must be prepaid, you may deduct the freight incurred.

My best for a Happy New Year.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWH:pc

A 3352

PERSONAL & CONFIDENTIAL

December 28, 1970

Mr. Jerry Forst
Alex Forst & Sons, Inc.
1340 Viele Avenue
Bronx, New York 10474

Dear Jerry:

As per our conversation, this memo is to confirm that we will exchange any excess merchandise from your 1971 Spring Order on a dollar for dollar basis for any merchandise in our 1971 line.

In addition, if we do not support our 1971 line with television as we have supported it in the past, you will have the right to return this merchandise.

The payment for the merchandise on this order is due May 10, 1971. However, if you have not distributed the merchandise to your own stores by this payment date, we will at that time work with you on re-dating the invoices.

Very truly yours,

TOPPER CORPORATION

Alex W. Hughes, Jr.
National Sales Manager

AWH:e

A 3353

b

[illegible]

LEONARD WASSERMAN COMPANY, INC.
9351 GRANT AVE • PHILADELPHIA, PA 19114 • [illegible] OR 7-4900

December 18, 1970

Personal
Mr. Henry Orenstein
Topper Corporation
107 Trumbull Street
Elizabeth, N. J. 07206

Dear Henry:

Regarding our recent conversations concerning our Purchase Order Numbers 37321 in the amount of $21,787.00 and 37276 totaling $762,887.40, I am outlining below my understanding of the agreement.

1. Approximately $3,000,000 will be spent in the first quarter of 1971 to promote primarily the Dawn category of Dolls, Clothes and accessories.
2. After Toy Fair, when we have had an opportunity to view the new merchandise available for '71, we will have the following options:
    - a. An option to return merchandise dollar for dollar for other Topper merchandise.
    - b. Exchanged merchandise will entitle us to retain the additional 10% early buy advantage.
    - c. Arrangements will be made through your representative, Mr. Fred Rosen, to warehouse part of the merchandise ordered.
3. The merchandise will be delivered in containers or shipped from Topper Factory f.o.b. our warehouse (freight free).
4. We will be given the 4% ad allowance on this goods.

5. We have the option of accepting an anticipated 6% if payment is made by January 20.

6. The merchandise will not be delivered until after January 10.

I will need confirmation of the above because of our anticipated audit of December 31, 1970 and our inventory to be taken on January 11, 1971.

Hope you have a good rest in Aruba. Am looking forward to meeting with you to follow up on some of your suggestions for 1971 purchasing. I will call on you to make a date the week of January 4.

Cordially,

Len

Leonard Wasserman

LW:brg

A healthy and Happy New Year to you and your family. 1971 should be an exciting year for Topper.

TOPPER CORPORATION

MEMORANDUM NO. A 9598 DATE 4/3/72

MEMORANDUM NO. DATE S.O / /

A 9598 RECEIVED

RECEIVED BY

SIGN & RETURN TO

To Henry D. Clarke, Jr.

From Fred Rosen

Subject Lionel Leisure

The problems with Lionel Leisure began in the fall of 1970. Lionel Leisure placed a Spring order for $600,000 and was shipped $1,000,000. This merchandise was to be shipped to the N.Y. Terminal Warehouse. The merchandise was shipped to the Lionel Leisure Warehouse in Philadelphia, Pa.

Since the Philadelphia warehouse had no space available, Lionel Leisure rented space from Overmoyer Warehouse directly across the street from 2951 Grant Ave. The unused portion of the $600,000, which was now $1,000,000, was to be exchanged at Toy Fair for 1971 merchandise.

Lionel Leisure would benefit from this transaction by 10% since the Discount for Spring of 1971 was 10% & 10% and the Toy Fair Discount for 1972 was 10%. Toy Fair - 1971, we wrote an order for $1,200,000. Mr. Henry Orenstein convinced Leonard Wasserman to defer the return of the original $1,000,000 written for Spring.

Sept. of 1971, Topper entered into an agreement with Lionel Leisure to use their Florida and Georgia Warehouses as Distribution Centers for the Southeastern part of the country. Lionel Leisure was to receive 9% profit plus Freight In and Freight Out for their participation.

Topper then shipped $900,000 in total, to the Atlanta and Miami Warehouses. Approximately $80,000 of this merchandise was shipped to our customers from these Distribution Centers.

Topper was asked in Jan., 1972 for shipping instructions on the remaining $820,000. Mr. Orenstein and Leonard Wasserman entered into negotiations to reslove these problems.

The following is the final breakdown of the $3,400,000 (invoiced) to Lionel Leisure beginning Dec. 1970:

Returned - $1,300,000
Sold - $1,000,000
Kept - $1,100,000 at Markdown Prices (Primarily Dancing Dolls & Cloth

Leonard Wasserman has expressed to me on several occasions that the prices, at which he bought the markdown merchandise, are not consistent with the true value in the market place.

Therefore, this large inventory, mostly in Dancing Dolls & Clothes, will considerably hamper our business relationship in 1972.

Fred Rosen

FR:cb

Rec'd [illegible]

A 3356

December 21, 1970

1971 TOPPER CORP. PROGRAM FOR S. S. KRESGE COMPANY

1. S. S. Kresge Company 1971 net cost prices with the Topper Corp. will [illegible] be Topper's list cost price minus 10% for all items in all categories in Dept. #4 - Toys and Games - and Dept. #64 - Hobbies and Crafts. (This will include closeouts.)

2. There will be an extra 10% Early Buy Discount applying on our Blanket Order #32, dated November 20, 1970, and Blanket Order #4, dated Dec. 4, 1970. Terms and conditions to conform to the instructions as outlined on these Blanket Orders. These orders will be payable on January 15, 1971.

   This merchandise will be shipped to and warehoused for S. S. Kresge Co. by NYTCO (New York Terminal Warehouse Company, Inc.)

3. $100,000.00 minimum advertising allowance will be given to the S. S. Kresge Company by Topper Corp. for 1971 advertising program. Additional advertising allowances to be negotiated at Toy Fair and throughout the year 1971 as opportunity arises.

4. As an additional incentive, the S. S. Kresge Company will be given an opportunity to buy up to $2,000,000.00 cost with the extra discount. (10% from List Cost Price.) This applies to Blanket Order #33, dated December 21, 1970.

   Payment for any purchases against this incentive agreement will be made by August 30, 1971. (Schedule of payments will be arranged during Toy Fair or by March 31, 1971.)

5. Topper Corp. will be fully responsible for all warehouse and insurance costs.

   The insurance policy covering this merchandise should be made payable to S. S. Kresge Company.

   Topper Corp. would be solely responsible for loss of S. S. Kresge Co. merchandise while in said warehouse.

   Topper agrees that in the event excessive quantities of any item remain
   in NYTCO Warehouse after initial distribution to S. S. Kresge stores,
   Topper will arrange for said merchandise to be exchanged dollar for
   dollar for merchandise which more closely conforms to Kresge's require-
   ments. This applies to Blanket Order #33, dated December 21, 1970,
   and all future blanket orders for the NYTCO warehouse.

A 3357

Kresge

November 18, 1970

S. S. Kresge Company
2727 Second Avenue
Detroit, Michigan 48232

Gentlemen:

This is in reference to the order which we discussed with you and which will be shipped to and warehoused for you by the New York Terminal Warehouse, Inc.

There will be an extra 10% Spring Discount applying on all merchandise contained in this order over and above Kresge's net 1971 prices. This 10% will apply even on merchandise that you might exchange under the provisions of this letter.

The order will be for about $1,400,000 to $1,500,000 net. About $400-500,000 of this order will be payable January 15. On the remainder of the merchandise, the following will apply:

During Toy Fair 1971, the Kresge buyers will review our line for the year. You will have the right to exchange any merchandise remaining from this order for anything in the Topper 1971 line. Topper will supply a television schedule to support the 1971 line.

Payments for the remainder of merchandise on the above-mentioned order will be dated May 10 but subject to revision according to your instructions worked out at Toy Fair.

Sincerely yours,

Frederick C. Pierce
Vice President - Sales

Mason Benson
Vice President - National Sales

s/

A 3358

1971 TOPPER CORP. PROGRAM FOR S. S. KRESGE CO.

Page 2. December 21, 1970

6. Topper represents that all Topper merchandise will be supported by a full TV campaign starting January 1971 on a continuous basis through December 1971. Should Topper's TV campaign not be provided as represented above, Kresge will have the right to return the above merchandise to Topper. [illegible]

[illegible]

Henry Orenstein
Topper Corporation

H. C. Frietmeyer
S. S. Kresge Co.

[illegible] throughout the year 1971 on [illegible] basis.

[illegible] December 21, 1970.

[illegible] March 31, 1971.)

[illegible] S. S. Kresge Company.

[illegible]

[illegible] dated December 21, 1970, [illegible] and all future [illegible] orders for the NYTD warehouse.

[illegible]

A 3359

S. S. KRESGE COMPANY

GENERAL OFFICES
DETROIT, MICHIGAN 48232

ORDER FORM

ONSIBLE FOR ORDERS OR CONTRACTS
COUNTERSIGNED AT DETROIT

MAIL INVOICE AND BILL OF LADING TO
STORE TO WHICH GOODS ARE SHIPPED

BLANKET ORDER #31
DATE December 21, 1970

SHIP S. S. KRESGE CO.

Store No.
c/o TERMINAL WAREHOUSE
107 Trumbull St.
Elizabeth, N. J. 07206

Firm TOPPER CORP.
Street 200 Fifth Ave.
City N. Y. , N. Y. 10010

VIA

F. O. B. DEL'D. by Hot

TE—INVOICES FOR SHIPMENTS MADE AGAINST THIS ORDER
ULD INDICATE ORDER DATE, DATE OF SHIPMENT AND FOR Dept. 84-22

TERMS: Payable August 30,197

THIS ORDER MUST NOT
SHIPPED TO KRESGE CO. STORES UNTIL KRESGE COMPANY GIVES
PPING INSTRUCTIONS.

SHIP INSTRUCTIONS TO BE ADVIS
BY THIS OFFICE
CANCEL

ORTANT - ALL COST PRICES LISTED BELOW ARE BASED ON LIST PRICE MINUS 10%

PPD	STK. NO. & ITE	C.P.		CTN PACK	CTN WGT
000 ONLY	#4300 LE MANS	13.49	12.14	3	38#
000 ONLY	#4301 INDY	8.99	8.09	4	38#
000 ONLY	#4303 CYCLONE	13.49	12.14	3	45#
000 ONLY	#2070 REG. WASHER	3.32	2.99	6	13½#
000 ONLY	#2071 REG. OVEN	4.00	3.60	6	15#
202 ONLY	#2076 REG. SINK	2.69	2.42	6	13½#
000 ONLY	#2075 REG. BLENDER	1.79	1.61	12	10½#
000 ONLY	#0550 FASHION SHOW	8.99	8.09	4	20#
		$1,111,033.38			

S 10% E.B.D. ON THIS ORDER ONLY -
UCTED OFF FACE OF INVOICE — 111,103.33

NET COST $ 999,930.05

ok per
H.C. Twietmeyer
12-22-70
AW

Confirmed at Detroit
DEC 17 1970
H. C. TWIETMEYER

H. C. TWIETMEYER, SR. BUYER

S&P

"This order is given on condition that by its acceptance (1) the seller guarantees the merchandise that will be shipped meets the requirements of existing state and federal laws and is an article that may be introduced into interstate commerce; (2) the seller agrees to indemnify, hold harmless and defend at its expense, the S. S. Kresge Company against all damage and expense from all claims of infringement of patents, copyrights, trade marks or of unfair competition or bodily injuries or property damage arising out of the use, possession, consumption, or sale of said merchandise."

FORM [illegible]

(4)

A 3360

ACK'D

GREENMAN BROTHERS INC.
105 PRICE PARKWAY, FARMINGDALE, L. I., N. Y. 11735 | 516-293-5300

REGISTERED MAIL
RETURN RECEIPT REQUESTED

To Mr. O.
8/4/71

July 29, 1971

Mr. Alex Hughs
Topper Corporation
107 Trumbull Street
Elizabeth, New Jersey 07206

WORKED FOR ROVE

Dear Alex:

It has become increasingly difficult to reach you concerning the return of merchandise that was part of our Spring agreement. After numerous conversations with yourself, Nat Shaffir, Fred Pierce, and lastly, with Preston Moss, I have decided that my best course would be to hold up all payments and all incoming shipments in order to expedite the clearing up of this situation. At this time I have the following merchandise that I would like to return to you immediately.

COSTED AT ORDER FORM LIST PRICE BEFORE

STYLE #	DESCRIPTION	NO. OF PCS.	
		12,000 ×	[illegible]
500	Dawn	6,000 ×	[illegible]
502	Angie	4,800 ×	[illegible]
507	Jessica	12,000 ×	[illegible]
520	Dancing Dawn	3,600 ×	[illegible]
521	Dancing Glori	3,600 ×	[illegible]
522	Dancing Angie	3,600 ×	[illegible]
527	Dancing Jessica	3,600 ×	[illegible]
530	Dancing Long Locks	19,208 ×	[illegible]
4018	1971 Car Assortment	47,400 ×	[illegible]
4410	Custom Car Assortment		[illegible]

With the return of this merchandise, we would be in a position to pay the May portion of the Spring Early Buy invoices, which I am sure you recall, were payable one half May, one half August. I obviously cannot pay any of these invoices until the merchandise has been sold, as they were sold to us on guarantied sale.

At our last meeting, which was last Thursday, you informed me that you had sent a return authorization, which I have never received. I trust that upon receipt of this letter, you will expedite the authorization for return of the above merchandise, so that we may continue to work towards the best year in both our histories.

Very truly yours,
GREENMAN BROTHERS, INC.

Alan Chaikin

TOY DISTRIBUTORS

AC/da

A 3361

INTERSTATE DEPARTMENT STORES, INC.
111 EIGHTH AVENUE
NEW YORK, N. Y.

November 19, 1971

Mr. Fred C. Pierce, Vice President
Topper Corporation
107 Trumbull
Elizabeth, New Jersey

Dear Mr. Pierce:

The enclosed letter to Mr. Richard Brito confirms our conversation of today, November 19th, and details the merchandise being shipped to your company.

All of us at Interstate greatly appreciate your excellent cooperation.

Thanks again for your courtesy extended.

Sincerely,

INTERSTATE DEPARTMENT STORES, INC.

Mildred Rosen
Mildred Rosen

MR:mg

Enc.

A 3362

FORM 648-1

COMPANY CORRESPONDENCE

TO: RICHARD BRITO

DATE: NOVEMBER 19, 1971

ATTENTION:

STORE STAMP

SUBJECT: SHIPMENT TO TOPPER CO.

SHIP TO: Topper Corp.
107 Trumbull
Elizabeth, New Jersey
Att: Mr. Pierce, Vice President

Prepaid from Secaucus to
Elizabeth, N. J.

Quantity	Cartons	Carton Pack	Style	Item	Unit Cost
54,336	2264	24	0500	Dawn Doll	$1.19
28,488	1187	24	0501	Glori	1.19
54,480	2270	24	0502	Angie	1.19
3,504	146	24	0503	Dale	1.19
62,496	2604	24	0520	Dancing Dawn	1.79
27,000	1125	24	0521	Dancing Gloria	1.79
34,656	1444	24	0522	Dancing Angie	1.79
7,584	316	24	0601	outfits	.89
22,752	948	24	0701	outfits	1.19
8,400	350	24	0801	outfits	1.85
2,100	35	60	4410	J. L. Cars	.73

TOTAL	$440,692.00
Less 10% and 10%	
NET	$357,000.00

Special Notes:

A. The charge is to be noted "Exchange of Merchandise", and is to be deducted from commitments to be made by any Division of Interstate Stores.

B. Return authorization No. 55131 is to appear on all Bills of Lading.

C. Contact Art Pollack, Director of Traffic at Topper Corp., when arranging cars or trucks from Secaucus. (Topper is located on Jersey Central Railroad)

EDWARD C. ENGLE

ECE:mg

cc: S. Cantor
C. Lazarus
H. Merola
N. Ricken
R. Riesner
M. Rosen
E. Schenkol
J. Marshall, Secaucus
F. Levine "
H. Shapiro "

A 3363 D

TO: Sandy Obolsky DATE: March 16, 1971

FROM: Jerry Gross RE: Pensick & Gordon

I met with Larry Jaffee, Comptroller of the above Company, and he has agreed to re-issue the check the way we want it handled. This will be done at the end of this week after he finishes with his auditors. After you receive it, please send him an up to date statement showing his account as reflected on our books.

Please also send him the credit for Toy Fair Advertising of $149,300.00 that is due him.

Please send him the credit for the 1970 Rebate - or a check for this amount.

Thank you very much.

cc: Richard MacDowell

JG:eg

A 3364

January 20, 1971

Mr. Larry Ades
Pensick & Gordon, Inc.
6501 Flotilla Avenue
Los Angeles, California 90022

Dear Larry:

Your December 31, 1970, inventory on our line is, according to your figures, approximately $434,000.

Our agreement for 1970 was that we will give you reshipping instructions in case our inventory is in excess of $100,000.

We are asking you to physically keep this excess inventory until April 1st. At the present time, we will redate the overage ($334,000) to September 10 due date.

By April 1 of 1971, we will either give you the aforementioned shipping instructions, or, if it is mutually agreeable, work out with you certain advertising adjustments so that you can keep this merchandise. This will be done at your option.

Topper will reimburse Pensick & Gordon for any direct costs incurred because of this agreement.

Sincerely,

Fred C. Pierce

FCP:es

A 3365

[illegible] D

ADVERTISING	7[illegible]	[illegible]
INVENTORY PRICE ADJUSTMENTS	5235312	[illegible] 00
1½% [illegible] OF RETURNS	12[illegible]	
POSTAGE [illegible]	1200[illegible]	[illegible]
CLEARING HOUSE CHGS ([illegible] CNT.)	[illegible]	? OK [illegible]
[illegible] (SANTA FE, ETC.)	1132 57	? ([illegible])
SHORTAGES	[illegible]	
MISC	[illegible]969	
REDATING	334[illegible]	
UNIDENTIFIED	68[illegible]	?
TOTAL	541[illegible]	

[illegible] #155 + 39 [illegible]

[illegible]

E

A 3366

TOPPER CORPORATION

MEMORANDUM NO. A 4082 **DATE** 4/16/71

MEMORANDUM NO. A 4082 **DATE RECEIVED**

RECEIVED BY

SIGN & RETURN TO

To Fred Pierce

From Jerry Gross

Subject American Toy - Cakland

Prior to signing the F.D. Agreement, Al Simon would like the following:

.) An adjustment (which evidently H.O. had offered to him previously) on the "knock-off" dolls he has in his warehouse. Al figures they amount to approximately $2,000.00 which he will split with us. He indicated that H.O. had offered to pick up the entire tab but Al "wants to be fair". He will then destroy the dolls and sign the consent order.

2) A statement of account based on the Toy Fair reconciliation by May 15. He wants both sets of books (his end ours) to be in agreement.

3) A letter from you in which you will indicate that:

a) Our shipping schedule is not cumulative. If our inability to ship the dollars for one month causes the shipments to fall behind, we may not double up the next month without specific permission. This does not mean that American Toy can hold up shipments. Al agrees to our schedule.

b) We will not invoice between June 11 and June 25 because of his inventory.

c) The Toy Fair order is subject to revision. Al agrees to the dollars but wants the privilege of adjusting items if early indications show that he has the potential for an unbalanced stock. We will get the placement and exposure but cannot have a repetition of the "JP" category.

d) If merchandise is carried over at the end of 1971 and because of Factory planning, the value is diminished, Topper will protect against mark-downs.

e) On the re-dated inventory amounting to approximately $125,000.00

(contd.)

A 3367

TOPPER CORPORATION

MEMORANDUM NO. A 4083 DATE 4/18/71

MEMORANDUM NO. A 4083 DATE RECEIVED / /

To Fred Pierce

From Jerry Gross

Subject American Toy - Page 2

RECEIVED BY

SIGN & RETURN TO

we will continue to have the responsibility on this merchandise until it's disposed of. In other words, while it is on American Toy's books it is not merchandise for which he is liable.

Please send him the letter as outlined and arrange for items 1 and 2.

If there are any questions, please let me know.

JG:eg

A 3368

[illegible]

June 14, 1971

Mr. Jerry Gross
Topper Corporation
357 South Palm Drive
Beverly Hills, California 90212

Dear Jerry:

I wish to apologize for my failure to communicate with you sooner. I'm about a week late in being able to evaluate our Franchised Agreement and the contents of the addendum that I had originally requested to be included.

First of all, let me state that to permit us to sign the Super Franchised Distributor Agreement without a written addendum approved by a corporate officer of Topper, I will have to check with my attorney, since I am not certain whether a verbal agreement in the presence of a witness is actually acceptable to us. I will certainly have the answer in the very near future.

Secondly, it is our position at this time that the order placed at Toy Fair is subject to stringent review since market conditions have forced us to take all Show commitments and re-analyze them from the basis of the existing pre-sell. As you know, the trade has responded poorly to promotional lines such as Topper, and our major customers are interested in featuring in the fall promotions only a relatively small number of your items and especially only the low priced ones. This coupled with the fact that the fashion doll category is in a slump, that stocks of fashion dolls and clothes as well as related toys are extremely heavy, and that your two other brand new categories have not "gotten off the ground" makes it difficult for us to justify releasing additional quantities of merchandise at this time. Consequently, the Franchised Distributor Agreement needs to be worked over from a standpoint of our capabilities to accept additional goods against our original Show order. I would, therefore, like to state and restate the conditions which need to be discussed and approved by Topper and Sirco in order for us to make it possible to formally agree to this agreement. I would like to list the items of consideration:

I. TOPPER'S RESPONSIBILITY TO OUR INVENTORY ON HAND

A. MARKDOWN ALLOWANCE

As has been the practice for several years, it is understood that any item dropped by Topper from its basic program and still in inventory by Simco will be given a markdown allowance to permit Simco to sell this merchandise without a loss based on landed cost. Simco will make every effort to offer this merchandise at such markdown prices to the trade; however, in the event that such efforts fail and inventory is still on hand, further markdowns will be available until all goods are sold. OK

B. INVENTORY RESPONSIBILITY

It is understood that approximately $125,000.00 worth of inventory is being stored by Simco at the present time which is and remains Topper's responsibility based on a program offered in the fall of 1970 to encourage Simco to accept a sizeable stock despite its then existing inventory restrictions. The liquidation of this amount of inventory is to be discussed beginning in June, 1971, and it is understood that the merchandise will be liquidated by the due date of the invoices representing these particular shipments. OK

C. 1971 INVENTORY POSITION

In view of the fact that a great deal of merchandise has been shipped since negotiations with regard to the addendum to the Distributor Agreement have begun, it is understood that all conditions of the addendum apply to that merchandise that has been released since Toy Fair 1971. OK

D. INVENTORY RELIEF

It is recognized that Topper and Simco engaged in a commitment which required Simco to accept such quantities of inventory much of which is still being warehoused at Simco's location that even with markdown allowances, these goods could not be moved by Simco's organization. In such specific cases, Topper retains the responsibility to assist Simco in moving this merchandise to other locations, thus reducing Simco's warehousing load as well as financial responsibility by the time invoices become due. OK

II. SHIPPING SCHEDULE OF 1971 TOY SHOW COMMITMENT

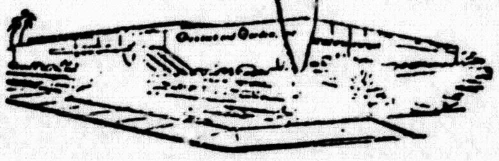
A. MONTHLY SHIPPING SCHEDULE

Because of Simco's purchasing system which will be in effect as of July 1, 1971, it will not be possible to accept random shipments against a commitment order. Topper agrees that prior to releasing a shipment during a particular month, based on the Super Franchi[illegible] Distributor Agreement, Topper's shipping department

If invoice [illegible] before shipment

A 3370

D



PENSICK & GORDON INC.
West's Largest Toy Distributors
P.O. BOX 3158 • TERMINAL ANNEX • LOS ANGELES, CALIFORNIA • 90054

April 20, 1971

Mr. Jerry Gross
Topper Toys
352 S. Palm Drive
Beverly Hills, California 90212

Dear Jerry:

Here is a copy of a chargeback which we received from your company in the amount of $2,640.61. As you can see, this relates to discounts that they have disallowed on our recent check amounting to $53,829.48. This check was a replacement which you requested for the one which we originally issued on January 10 in which all of the invoices, less our chargebacks and your inventory carryover, were paid on time.

Jerry, this whole situation is ridiculous. Last week I requested a copy of our account as it appears on your company's books for which I have yet to receive a reply. You have assured us that all of the 'garbage' pertaining to last year has been taken care of and that it would not repeat itself for 1971. Evidently, this has not gotten back to your Accounting Department.

In addition, we have yet to receive our 1970 Franchise Distributor's rebate of 4%, as well as our Toy Fair credit amounting to $149,300, which we have requested.

Frankly, we now must insist that we have these matters taken care of immediately.

Best regards.

Sincerely,

PENSICK & GORDON, INC.

Lawrence S. Jaffee
Treasurer

LSJ:eb
Enclosures

LOS ANGELES • General Offices • 6501 Flotilla Street • Los Angeles, California • 90022 • 722-6460

12

D

A 3371

TELETYPE ☐ TELEGRAM ☐ MAIL ☐

JERRY GROSS
352 So. Palm Dr.
Beverly Hills, Cal. 90212
(213) 272-[illegible]

TO Fred Pierce AT

SUBJECT Pensick & Gordon - L.A. DATE 11/7/70

In essence, we agreed at our meeting in Las Vegas, to remove from the Pensick & Gordon warehouse any inventory in excess of $100,000. The $100,000. figure was the maximum inventory that P&G was responsible for as per our Toy Fair 1970 deal. Unlike this year, however, we have agreed to physically remove the excess (probably to Clearfield, Utah) and accept the charge-back so as to remove this inventory from the Pensick books.

Larry also raised points on freight and dating, neither of which did H.O. agree to.

[illegible] memo

JG:an

PLEASE REPLY TO → SIGNED Jerry

Rediform 45 461

A 3372

March 4, 1971

Mr. Lawrence S. Ades, President
Pensick & Gordon, Incorporated
6501 Flotilla Avenue
Los Angeles, California

Dear Mr. Ades:

As of January 10, 1971, Pensick & Gordon, Incorporated has a Topper inventory of approximately $444,000.00, a portion of which was caused by over-shipments. In view of this, Topper will redate $334,000.00 and Pensick & Gordon will not be obligated to pay for this merchandise until such time that disposition is made at no financial loss to Pensick & Gordon.

In consideration of Pensick & Gordon, Incorporated's Toy Fair Order, Topper is granting a special Toy Fair Advertising Allowance of $149,300.00. Topper also agrees that they will redate any inventory existing on December 31, 1971, in excess of 10% of Pensick & Gordon net 1971 purchases. Pensick & Gordon will not be obligated to pay any such excess until such time as the merchandise is disposed of at no financial loss to Pensick & Gordon.

This agreement shall be binding upon Topper Corporation and/or any successors thereto including, in the event of a bankruptcy, the receivorship.

Sincerely yours,

Fred C. Pierce

FCP:es

Schedule of Customers with Exchange Privileges

Interstate (see letter attached)	$ 357,000
Lionel Leisure (1)	408,076
Warehouse Exchanges (2):	
American Hardware	51,881
American Leisure	373,349
Child World	55,785
Davis Bros.	154,592
Eastern Toy	174,551
Kresge	729,770
Lash	398,289
Tamaron	351,625
Twin Fair	49,479
Total Exchanges	$3,004,397

(1) Represents 1970 extended dating merchandise exchanged for 1971 merchandise. This amount is equivalent to the excess of 1971 returns over 1971 sales applicable to items sold on extended dating in 1970.

(2) Represents 1970 extended dating merchandise in the NYTCC warehouse at November 30, 1971, for which subsequent exchange credits were issued. For a particular customer, this amount is equivalent to credits issued for such merchandise up to the amount of 1971 net sales made to the particular customer.

A 3374

Copy To
F. Pierce 12/11/70

S. S. KRESGE COMPA

GENERAL OFFICES
DETROIT, MICHIGAN 48232

ORDER FORM

NOT RESPONSIBLE FOR ORDERS ON CONTRACTS UNLESS COUNTERSIGNED AT DETROIT

MAIL INVOICE AND BILL OF LADING TO STORE TO WHICH GOODS ARE SHIPPED

BLANKET ORDER # 4

DATE December 4, 1970

SHIP S. S. KRESGE CO.
~~XXXXXX~~
c/o TERMINAL WAREHOUSE
107 Trumbull Street
Elizabeth, New Jersey

Firm TOPPER CORPORATION
Street 200 Fifth Avenue
City New York, New York 10010

VIA

F. O. B. DELIVERED

TERMS: NET 30

SHIP SHIPPING INSTRUCTIO TO BE ADVISED AT A LATE
CANCEL DA

NOTE—INVOICES FOR SHIPMENTS MADE AGAINST THIS ORDER SHOULD INDICATE ORDER DATE, DATE OF SHIPMENT AND FOR Dept. # 64

THIS ORDER MAY BE ADJUSTED AT S.S. KRESGE'S DISCRETION AT ANY TIME, EXCHANGE ANY MDSE. DOLLAR FOR DOLLAR. THIS ORDER MUST NOT BE SHIPPED TO KRESGE COMPANY STORES UNTIL KRESGE COMPANY GIVES SHIPPING INSTRUCTIONS.

IMPORTANT: ALL COST PRICES LISTED BELOW ARE BASED ON LIST PRICE MINUS 10%.

QUANTITY ORDERED	STOCK NO. & DESCRIPTION	COST PRICE	CTN PACK	CTN WGT.
1409 Asstm.	4410 Johnny Lightning . Custom Assortment	$ 39.42	1	13#

GROSS TOTAL -	$55,543.00
LESS 10% E.B.D. ON THIS ORDER ONLY DEDUCTED OFF FACE OF INVOICE.	5,554.00
NET COST -	$49,989.00

Pin H.O.
[illegible]

H.C. Twietmeyer
H.C. TWIETMEYER, SR. BUYER

T:S:B

"This order is given on condition that by its acceptance (1) the seller guarantees the merchandise that will be shipped meets the requirements of existing state and federal laws and is an article that may be introduced into interstate commerce; (2) the seller agrees to indemnify, hold harmless and defend at its expense, the S. S. Kresge Company against all damage and expense from all claims of infringement of patents, copyrights, trade marks or of unfair competition or bodily injuries or property damage arising out of the use, possession, consumption, or sale of said merchandise."

CODE No. 912 59 5M · Only · 8/68 3101/68K [illegible] · Litho in U.S.A

①

A 3375

communicates with Simco's purchasing department giving it the contents of the shipments for the particular month so that a release order may be generated by Simco's data processing system to represent the shipments during that month. It is understood that no merchandise is released until Topper receives this confirmed release order. It is further understood that should the contracted dollar amounts not be shipped during a particular month for specific business reasons, that such shipping figures are not cumulative to the next month but will be included in the September shipping schedule to complete the order.

B. MAXIMUM INVENTORY LEVEL

Since Simco's physical facilities are limited in scope, it is understood that Simco will not be forced to warehouse more than fifty percent (50%) of the anticipated annual volume to be done with Topper at any one time. It is our opinion at this time that our volume will be approximately $500,000.00, and it is, therefore, agreed that the maximum inventory level will be $250,000.00. Simco certifies that this maximum inventory condition has been implemented with all other major suppliers. This figure is to include dollars which are Simco's responsibility as well as those which are Topper's responsibility but included in Simco warehouse stock. As soon as this figure is reached, the shipping schedule, according to the Franchised Distributor Agreement, must be delayed until such time that the inventory is reduced below this level to permit additional shipments to be received.

No

C. STATUS OF FRANCHISED DISTRIBUTORS 1971 TOY FAIR ORDER

Although it is agreed that the order is a firm commitment, the quantities may be adjusted depending upon conditions which may arise after the signing of the purchase order. Topper agrees to ship partially against large quantities ordered, and if some of the merchandise has not been released after it has been determined that a saturation TV promotion has been unsuccessful in the particular category of merchandise, Simco should not be forced to accumulate additional goods which obviously will have to be closed-out at a later date.

It is further agreed that under such conditions Topper will not penalize Simco as per Article 14 in the agreement.

Furthermore, any unshipped portions of this order which have not been released by Simco because of the aforementioned conditions will be cancelled as of October 1."

will tk.
88,000
in Aug
&
80,000
"
Sept.

A 3376

D. MISCELLANEOUS CONDITIONS FOR FRANCHISED DISTRIBUTOR

1. Although Simco agrees to stock every item in the current Topper toy line, it is understood that such items may be dropped prior to the fall season should the pre-sell be limited and such items may be discontinued for the balance of the year if the continued stocking of the items based on limited support proves to be uneconomical.

OK

Neo

2. Although Simco does not intend to dictate Topper's policies with regard to establishing additional franchised distributors in Simco's marketing area, it is understood that such appointments will not be made except at Toy Fair time, or at such time that both Simco and Topper mutually agree that Simco's efforts do not fulfill Topper's marketing plans. At such time, Topper agrees to discuss with Simco the responsibility of the existing inventory.

30 Days
per
agreement

3. Price Protection - Because of the heavy inventory that Simco is required to carry, on all promotional items Topper agrees that, if during the season it is necessary to reduce the price valuation of such items, Simco is protected.

OK

I believe it is important that we get all these various points analyzed and discussed and as per several previous attempts it is also that no additional merchandise be released from the factory until this agreement is finalized since the failure to comply with this request will result in the refusal of this merchandise. Consequently, I consider it of utmost importance to have us get together for this discussion as well as for the disposition of the merchandise based on our agreement relating to the spring order. This disposition is to be finalized prior to June 25th and time is rapidly running out.

Very truly yours,

AMERICAN TOY COMPANY

Al Simon

AS/sc

cc: Mr. Lorin Blum,
[illegible], Lewis and Blum

bcc: Harold Locktov
[illegible]

E

A 3377

October 15, 1971

TOPPER CORPORATION
107 Trumbull Avenue
Elizabeth, New Jersey 07206

Attention: Mr. Fred Pierce

Dear Fred:

Unfortunately, I was not able to compile my cash requirement projections involving Topper invoices prior to my departure on a two week trip to Israel. I have, however, instructed my Accounts Payable Department to come up with a complete review, which will be ready for my evaluation as soon as I return on or about November 1. At that time, I will immediately send it to you for further discussions.

Please keep in mind that, at the moment, we have approximately $125,000 worth of inventory which we should not have, based on our prior arrangement. If you can authorize Jerry Gross to move some of these goods to other locations, it would be of great help to both of us. Obviously, the level of inventory on Topper merchandise which we have in our warehouse at the present time is such that we cannot possibly clean out to a reasonable degree by the end of the year.

Sincerely,

SIMCO-PACIFIC

Al

Al Simon

AS/fo
cc: Mr. Jerry Gross
352 South Palm Drive
Beverly Hills, California 90212

SIMCO 7200 Edgewater Drive / Oakland, California 94621 / (415) 635-0000
Serving: American Toy Company / American Sport Company / American Model Distributors.

A 33778

SERVICING

P.O. BOX 24224 • 94623
7700 EDGEWATER DRIVE
OAKLAND CA 94621
AREA CODE: (415) 635-9000

INVOICE

278	1 of 1	3525		

TERMS		PAGE	
	1/10/71	1 of 1	278

SHIP TO

ASSIGNED TO / REMIT TO

SIMCO - PACIFIC

SOLD TO

TOPPER AMERICAN TOY COMPANY 12/30/70

GUARANTEED SALE MERCHANDISE
FACTORY RESPONSIBILITY
PLEASE ISSUE CREDIT MEMO

Item #	ITEM	1970 PURCHASED	QOH	*F/R	DZ CST	EXTENSION
0550	DAWN FASHION SHOW	500	200	150	119.88	17982.00
4301	ROCKET 500 INDY	354	60	25	119.88	2997.00
2028	SUZY CORN POPPER	500	70	20	59.88	1197.60
2041	SUZY SUPER OVEN	276	75	47	155.88	7326.36
1008	BABY LUV N CARE	100	40	30	119.88	3596.40

*FACTORY RESPONSIBILITY PER AGREEMENT

Ded. 1-21-71
CK. # 15657

NET C 08 003 10 CR 33,099.36

[illegible] THIS INVOICE. WE DO [illegible] AND STATEMENTS.

ALL CLAIMS FOR SHORTAGES MUST BE MADE WITHIN 5 DAYS OF RECEIPT OF GOODS.

SELLER RESERVES THE RIGHT, WHENEVER IT DEEMS ITSELF INSECURE TO DECLARE THIS INVOICE DUE AND PAYABLE UPON GIVING BUYER 10 DAYS WRITTEN NOTICE OF INTENTION TO DO SO, ANY DATING PROVISIONS TO THE CONTRARY NOTWITHSTANDING.

A 3379

SERVICING

265 1 of 1 3525

P.O. BOX 24224 • 24623
7200 EDGEWATER DRIVE
OAKLAND CA 94621
AREA CODE: (415) 635-9000

INVOICE

1/10/71 1 of 1 265

SHIP TO

SOLD TO

SIMCO - PACIFIC

TOPPER

AMERICAN TOY COMPANY

12/30/70

			GUARANTEED SALE MERCHANDISE		
			FACTORY RESPONSIBILITY		
			PLEASE ISSUE CREDIT MEMO		
19	1	4100	JET PWR HILL CLIMB	47.88	913.71
15	3	4101	JET PWR FLYING JUMP	41.88	638.67
2	10	4102	JET POWER COMPETITION	119.88	339.66
48	11	4104	JET POWER SPEED TRACK	23.88	1168.13
20	3	4105	JET POWER COMPRESSOR	71.88	1455.57
10	11	4108	JET POWER STR TRACK	12.00	131.00
23	5	4109	JET POWER CURVED TRACK	21.00	491.75
496		4110	JET POWER ASST	9.48	4702.08
			NET C 08 003 10 CR		9840.57

6cts Reduced to 8502.25

Ded 1-21-71
Ck #15651

ALL CLAIMS FOR SHORTAGES MUST BE
MADE WITHIN 5 DAYS OF RECEIPT OF GOODS.

A 3380 2

SEMCO SERVICING / AMERICAN TOY CO. / AMERICAN SPORT CO. / AMERICAN MODEL DISTRIBUTORS

INVOICE

P.O. BOX 74224 • 94623
7200 EDGEWATER DRIVE
OAKLAND, CA 94621
AREA CODE: (415) 635-9000

[illegible]	PAGE	[illegible]	SALESMAN	[illegible]
279	1 of 1	3525		

TERMS	[illegible] DATE	PAGE	[illegible]
	1/10/71	1 of 1	279

SHIP TO

ASSIGNED TO / REMIT TO

SEMCO - PACIFIC

SOLD TO

TOPPER

AMERICAN TOY COMPANY

12/30/70

QUANTITY		DESCRIPTION	EACH COST	DOZEN COST	EXTENSION	P.O./SALES NUMBER	LIST PRICE
		GUARANTEED SALE MERCHANDISE					
		FACTORY RESPONSIBILITY					
		PLEASE ISSUE CREDIT MEMO					
1024	0600	DAWN OUTFIT ASTMT		9.48	9707.52		
4206	0700	DAWN OUTFIT ASTMT		13.20	55519.20		
1806	0800	DAWN OUTFIT ASTMT		20.28	36625.68		
		(QTY INCLUDES 500A, ETC)					

(Ex. C.) C 88 010.17

CR. #15657
Dzd. 1-21-71

NET C 08 003 10 CR 101,852.40

[illegible] THIS INVOICE. WE DO [illegible] MONTHLY END STATEMENTS.

ALL CLAIMS FOR SHORTAGES MUST BE MADE WITHIN 5 DAYS OF RECEIPT OF GOODS.

SELLER RESERVES [illegible] IT DEEMS ITSELF INSECURE TO DECLARE THIS INVOICE DUE AND PAYABLE UPON GIVING BUYER 10 DAYS WRITTEN NOTICE OF INTENTION TO DO SO. ANY DATING PROVISIONS TO THE CONTRARY

A 3381

F

TELETYPE ☐ TELEGRAM ☐ MAIL ☐

TO Col. Hughes AT

SUBJ. [illegible] DATE 9/18/70

Please review attached notes and advise if anything can be done to speed payments. Also, Ron claims the agreement re paying him each month was written into his contract.

9/24/70 FCF looked up the contract and found the above agreement was written in by Ron

Rediform
45 461

SIGNED

A 3382

F

Globe Wholesale

9/18/70 Balance Due $325,000 after on a/c cash & credits

Returns D/M's 79,000

$246,000

Redating 137,000

$109,000

Ron said he sent on 9/15 $19,000 and will work on the a/c again next week. Claimed agreement was to pay for sold inventory when he agreed to take large shipments early.

A 3383

F

[illegible], Inc.
[illegible]
[illegible]
Taylor, Mich. 48180

October 10, 1971

OCT 12 1971

Mr. Fred Pierce,
Topper Corporation,
107 Trumbull St.,
Elizabeth, N. J. 07206

Dear Fred:

Enclosed is our check covering the following invoices less your credit memo:

Invoice #163522	$22,072.34	$87374,33 1970
Invoice #165816	$65,301.99	
Invoice #171904	1,778.54	1971
Invoice #172571	1,577.80	
Invoice #173405	23.64	
Invoice #174345	2,276.54	
Invoice #175346	5,021.65	
Invoice #177144	1,351.69	
Less Credit Memo #183069	(8,649.89)	

We are also deducting for the following discrepancies now, as per enclosed, rather than waiting for another lengthy bit of correspondence that Topper never seems to answer.

Discrepancy #1 - On the 8 invoices and one credit memo listed, the additional special discount was 10% and not 8% as per our purchase order #6808 dated 11/12/70.

Discrepancy #2 - Enclosed is a copy of our letter of July 12th listing shortages against the total number of shipments received. Since we have had no reply from you, we assume this shortage claim is in order and we are deducting $900.12 on this claim.

Discrepancy #3 - On June 24th we returned to you 1155 cartons via ABC Freight, copy of bill of lading attached. On June 22nd you returned to us 1115 cartons, leaving a shortage of 30 cartons due us on our return. We are deducting for 15 cartons #0701, and 15 cartons #0301, which were short on our even exchange.

Credit

A 3384

G

MEMO FOR FILE
April 7, 1971 -- 5:15 PM

SUBJECT: KORVETTES

Mr. Orenstein telephoned me and advised that he had clarified the arrangement with Korvettes as follows:

1) Korvettes will give us an additional order (over and above the approximate $600,000 shipment to terminal in December 1970) of $700,000 for which they are completely responsible both as to payment and ownership of merchandise.

2) Mr. Orenstein indicated that all volume above this amount will be determined at a later date at which point we will decide whether we wish to provide them with any minimum guarantee on a test basis. In other words, at that time we will decide to what extent, if any, we will provide them with a guaranteed sale.

JACK J. ROSE

cc/J. Schwartz - S. Obolsky

MEMO FOR FILE
April 7, 1971

Subject: KORVETTES

At a meeting between Messrs. J. Rose, S. Obolsky and F. Pierce, a discussion was held concerning Korvettes.

Mr. Obolsky attended a meeting with Mr. Nat Shaffir at Korvettes with Messrs. George Goldberg, Abe Rosenblatt, Seymour Schneider and Richard Glassman. At this meeting, Mr. Obolsky was informed by the Korvettes' people that the arrangement for this year provided for total orders, including the Spring order shipped into terminal warehouse in December 1970, to be approximately $2,100,000. Mr. Obolsky was informed that it was Korvettes understanding that their responsibility was limited to 10% of the $2,100,000 and that any inventory balances in excess of that amount in Korvettes hands at January 15, 1972 would be the subject of a reimbursement check (and credit) by Topper Corporation to Korvettes. To Mr. Obolsky's knowledge this understanding was oral.

Mr. Obolsky informed J. Rose and J. Schwartz of the above situation at approximately 4:30 PM on April 6, 1971.

The above situation was brought to the attention of Mr. Orenstein on the morning of April 7, 1971 around noon. Mr. Orenstein called Mr. Nat Shaffir to determine firsthand what had transpired at the April 6th meeting. Mr. Orenstein indicated that he had no knowledge and had not authorized any arrangement which provided for a guaranteed sale. Mr. Orenstein confirmed the facts as indicated above and indicated to Mr. Shaffir that he had absolutely no authority to agree to such an arrangement. He also asked Mr Shaffir if any other arrangements were made with other customers similar to that of Korvettes. Mr. Shaffir indicated Korvettes was the only one.

At approximately 3:30 PM on April 7, 1971, Mr. Orenstein called Mr. Goldberg of Korvettes (with Mr. Rose listening in on an extension) and the facts as presented above were repeated by Mr. Goldberg with one significant exception; that exception was that Mr. Nat Shaffir, after leaving Mr. Obolsky, signed an agreement which incorporated all of the above facts.

Mr. Orenstein called Mr. Shaffir shortly thereafter and informed him that he had violated our company policy and did not have any authority to execute any documents on behalf of Topper Corporation. He further advised

Mr. Shaffir that we could not honor any such agreement and that he was to go directly to Korvettes and obtain the agreement from them. Mr. Orenstein indicated that we would not accept business from Korvettes on this basis.

Mr. Orenstein phoned (in Mr. Rose's presence) Mr. Rosenblatt of Korvettes and informed him that the arrangement made with Mr. Shaffir was without authority and that we would not consider the arrangement to be reasonable. He indicated that Korvettes could buy or not as they wished but certainly we could not consider allowing them any reasonable year round discount without significant, firm noncancellable orders (including the shipment into terminal in December 1970) to be no less than $1,300,000.

Mr. Orenstein will advise me the final outcome of the Korvettes situation.

JACK J. ROSE

djc
cc/S. Obolsky
J. Schwartz

A 3387 6

TOPPER CORPORATION

MEMORANDUM NO. C 9087 DATE

To Alex W. Hughes, Jr. 4/7/71

From Nat Shaffir

Subject E.J. Korvette Order #H 12785

MEMORANDUM NO. C 9087

DATE RECEIVED / /

RECEIVED BY

SIGN & RETURN TO

1. TERMS: 2% 100 days. Not to exceed January 10th.

2. Order to be shipped in four (4) equal shipments so it can be paid:

   25% July
   25% August
   25% September
   25% October

   which means it should be shipped March, April, May and June.

3. $50,000 worth of advertising money.

4. Discount: 8%

5. Terminal Deal

6. At the end of the year I promised them they would not end up with more than 10% of their total volume for the year in inventory and I will help them out before and move merchandise where I see there is a problem.

7. Also, we will exchange merchandise from the Spring program as agreed at the time the order was given.

Nat

Nat Shaffir

[illegible]:G

F

A 3388

The last point I would [illegible] transaction is that at the time of [illegible] that any goods not [illegible] full credit. I have tried [illegible] Lewis on a number of occasions [illegible] in my desire to retain these goods.

Fred, I want to be on record [illegible] the end of October, if there are no indications [illegible] goods out, we are returning to you [illegible] of the [illegible] Lightning merchandise [illegible].

I would suggest that [illegible] the goods shipped, since there [illegible] correspondence regarding this matter.

Very truly yours,

L.M.-[illegible] INC.

RS*AB

Ron [illegible]

6

A 3389

[illegible]

[illegible] NO. C 722 DATE

MEMORANDUM NO. C 722

DATE RECEIVED 1 1

Fred C. Pierce 10/5/71

Alex W. Hughes, Jr.

SPECIAL ARRANGEMENTS MADE AT THE DIRECTION OF TOPPER

RECEIVED BY

SIGN & RETURN TO

CONFIDENTIAL

Davis Brothers	none
Close Stationery	none
Greenman Brothers	none
Horowitz	none
Leisure Line	none
Shepner Distributors	none
Arlans	Standard arrangements on Spring program which have since been superseded by HO.
Barkers	none
Gimbel's	none
Interstate	Authorized the return of 7200 assortments of outfits per HO. Outfits brought in under exchange program, but not to be returned.
Irvington Toy	none
S. Klein	none
E. J. Korvette	Wrote original $800,000 firm order and $600,000 order which carried provision that any merchandise on this $600,000 order over $200,000 would be subject to protection. This was the format developed in conference with HO.
McCrory	none
Popular Merchandise	Extended 10% all year plus 4% advertising rebate at the end of the year as agreed to by FCP.
Rockaway Sales	none
Times Square Stores	At Toy Fair we redated $35,000 worth of outfits in Puerto Rico on the basis that we would move them. OK'd by FCP. In June, authorized the return of Spring items, approximately $100,000. However, this authorization was superseded after negotiations by HO, Jack Kipperman, and Mr. Seed[illegible]
Top All Varieties	none
Town and Country	none
Vornado	Sold Vornado 1200 pieces each of 2041, 4300, and 0550 for $3 each to be used at store openings only. OK'd by HO.

A 3390

CONFIDENTIAL

Consolidated Athletic Detroit	Allowed $14,000 adjustment on stock in September. This is in addition to all previous adjustments. Instructed Shipping not to return outfits brought in on the exchange program. These are to be credited. Arranged payment schedule which is in the hands of Pres Maas and has been accepted, and extended regular protection we afford to all super FD's. These arrangements OK'd by FCP.
David Bros.	none
Elmex	Extended 2% advertising for the year plus $3,000 special advertising. Extended guarantee on all shipment of Smartypants and on the 25% of special items shipped without release. Agreed to warehou charge for storage of excess merchandise in July & August only. These arrangements OK'd by FCP.
Grossman Sales	none
Ketchum Distributors	Extended normal protection on Spring purchase plus 1971 purchases. This arrangement OK'd by FCP.
Lowenstein & Sons	none
Alpeg Distributors	Extended protection on order shipped October 1st, Account has assurance that we will not let them be severely hurt. This translates to the fact that we would extend very slight token protection.
Circus World	Account was extended normal protection on Spring purchase as approved by FCP. Account has chosen to ignore Jerry Jones' interpretation of the way this should work and has continuously deducted 10% and from all invoices. This procedure was not authoriz by me or anyone that I know of.
Cook United	Customer was extended normal protection on Spring program and advertising which is currently in our accrual book as per FCP. Additional $2,000 advertising was extended in October to help Jerry Jones get new orders. In practice, we have helped Cook at end of the year with token returns from their warehouse only. There is no specific agreement regarding this, so, any approach must be weighed as to it's value at the time request is made.
Myron Hickman	Account is being sold at 10% all year with 4% advertising with the approval of FCP. A recent offer of $5,000 additional advertising for a $90,000 order was rejected by account.
Washington Distributors	none
Yankee Distributors	none
Consolidated Athletic St. Louis	none
Globe Wholesale	none
[illegible]	none
[illegible] Company	Account has protection on both Spring [illegible] [illegible] on a direct basis increases our responsibility
Thebault Olsen	none
[illegible] Stores	none
Gateway Stores	none

A 3391

Fred C. Pierce

SPECIAL ARRANGEMENTS MADE AT
THE DIRECTION OF TOPPER -3- 10/5/71

CONFIDENTIAL

Goldblatt Brothers	none
Parkview Gem	none
Shopko, Inc.	none
Venture Stores	none
Wisconsin Toy & Novelty	none
Target	Account is being sold at 10% and 2% advertising which was OK'd by FCP. No protection given.
Apex Sales	none
Tee Vee Toys	none
Bender's	none
Child World	none
Eastern Toy	Advertising as approved by FCP is in the accrual. No protection of any kind was extended to this
Gollis	No protection of any kind was extended. However, shipped their order about 20 days early since acc. stated they would not pay prior to January 10th. This was approved by FCP.
Harold Hahn	none
King's Dept. Stores	none
Zayre	none
American Toy	HO OK'd repayment of $9,000 television commission, this was forwarded to Jack Jones. Account wrote several orders on Sesame Street and will cancel if delivery is too late.
Blatt Distributors	none
Federal Wholesale	I have not extended any programs except on Sesame where account intends to cancel if shipment is not made early enough.
Hays Merchandise	none
Northern Specialty	As per inventory available in my files, everything that does not appear on this year's price list has been settled completely. We have no further responsibility. All other arrangements were made with FCP and HO, however, account wrote several orders on Sesame Street and intends to cancel if delivery is too late.
Pensick & Gordon	Regular protection on '71 merchandise has been extended per FCP. In addition, account wrote new orders on Sesame Street and intends to cancel if shipment is too late.
Broadway Stores	none
Fedco, Inc.	none
International Distributing	none
May Company	none
Fred Meyer	none
[illegible] Hose	none
[illegible]	none
[illegible] Products	none
Globe Discount	none
T.G.&Y. Stores	none

A 3392

CONFIDENTIAL

City Products	none
Jewel Companies	none
Montgomery Ward	none
Tamaron Distributors	none
Walgreen's	none
Associated Sales	Regular protection on Spring and '71 business as per FCP.
Chapman Harkey	This account was to take Spring merchandise out of terminal in March. It is not out yet. This acct was to make an effort to settle adjustments. Not settled yet. Top management should call on this company to resolve our differences. They are still a good customer.
V. J. Elmore	none
National Merchandise	none
American Leisure	$24,000 advertising was extended on the basis of $800,000 business. They will attempt to take $24,000 regardless. The only other stipulation here is that we will not ship beyond their cancellation date.
M. H. Fishman	none
Grandway	Account has protection on Spring purchase. However, we gave them 0550's at a price to move approximately 100,000 pieces of goods. This was OK'd by HO.
W. T. Grant	none
S. S. Kresge	none
S. H. Kress	none
Mangel's	none
G. C. Murphy	GCM is buying at 7% discount, 2% advertising, and 3% allowance at the end of the year. This arrangement was OK'd by FCP.
J. J. Newberry	none
G. E. Nichols	none
J. C. Penney (Mail Order)	none
J. C. Penney (Retail)	none
Roses	none
Treasure Island	none
Woolco	Was offered $25,000 advertising for two pages in their tab plus special display units.
F. W. Woolworth	none
L & H Sales	none
Milton D. Myer	none
Pittsburgh Wholesale	none
A. Pennock & Sons	none
S & H Wholesale	none
Uhlen Carriage	none
[illegible]	none
[illegible]	none
[illegible]	none
Read's	none
Toy Town, U.S.A.	none
Twin Fair Distributing	none
[illegible]	none

H

A 3393

Northern Specialty Sales, Inc.

6635 N. BALTIMORE • P.O. BOX 03160 • PORTLAND, OREGON 97203
AREA CODE 503 • 285-0541

THE NORTHWESTS MOST COMPLETE SELECTION OF THE WORLD'S LEADING TOY LINES

December 29, 1970

M[illegible] Pierce
Vice President, Sales
Topper Corporation
107 Trumbull Street
Elizabeth, New Jersey 07206

Dear Fred:

Enclosed please find our Debit Memo #692 in the amount of $300,000. According to our agreement, we were to keep $75,000, and you would rebill all amounts over $75,000 with October 1971 dating. You will note that because of some discontinued merchandise, we kept this to $300,000 even, instead of $308,000.

I also note in extending the so-called "$400,000 purchase order" which was given to Jerry in Las Vegas; it totals close to $557,000! This amount, to me, is absolutely ridiculous!

Under no circumstances, Fred, are you to ship me over 50 dozen #563 Doll Cases, until I release same.

Kindest personal regards.

Yours very truly,

NORTHERN SPECIALTY SALES, INC.

Lewis O. Buchwach

Lewis O. Buchwach
President

JAN - 4
[illegible]

LOB:lkf
encl: Debit No. 692, listing of inventory dated 1/4/71.
copies: Mr. Jerry Gross
file to hk.

A 3394

TOYS HOBBIES NOVELTIES JOBBERS IMPORTERS DISTRIBUTORS

NORTHERN SPECIALTY-SALES, INC.
6635 N. BALTIMORE — PORTLAND, ORE. 97203 — 286-0641 CODE 503

DEBIT MEMO

No. 492

#807

TO Topper Corporation
107 Trumbull Street
Elizabeth, New Jersey 07206

DATE Dec. 29, 1970

Factory responsibility as per agreement. $300,000.00

LOB:lkf
4 copies to hk.
covering letter enclosed.

See 12/29/69 memo re this the same.

A 3395

Phone
286-0641
6635 N. BALTIMORE P.O. BOX 03160 • PORTLAND, OREGON 97203

THE NORTHWESTS MOST COMPLETE SELECTION OF THE WORLD'S LEADING TOY LINES

June 3, 1971

Mr. Fred Pierce
Topper Corporation
107 Trumbull Street
Elizabeth, NJ. 07206

Dear Fred:

Enclosed please find two charge-backs, wherein your Credit Department received our checks which were sent out of here the week of May 10th; and they have the nerve to charge us back when we were in agreement that we would not be charged back if we kept within a week or two of discount period.

It has gotten so we cannot actually clear up our ledger cards because of your inability to send us credits on time, as well as the charge-backs we are getting for so called "unearned discounts" from your office.

I want you to go back to the time we gave you the order in Las Vegas at which time the agreement was that all of the goods sent in on that order were subject to transfer or trade for new merchandise. If we were to do this as agreed, we wouldn't owe you any monies at the present time other than futures.

I am very upset over the present handling of credits, statements that do not reflect true balances, charge-backs for "unearned discounts". If you will recall at Toy Fair, Henry OK'd to clear all these nits and fees on so called "unearned discounts" that appeared on the balance sheet, as well as some minor discrepancies; but to date nothing has happened. Therefore, I would suggest that we hold all shipments in abeyance until the bookkeeping end of this situation is straightened around to our mutual satisfaction.

H.O.

IMPORTERS • DISTRIBUTORS • JOBBERS

H

Page Two
Mr. Pierce
Topper Corporation
June 3, 1971

Since Toy Fair, we have been receiving much more than we verbally agreed to, because we were not supposed to start receiving any cars or new merchandise until May. Our warehouse is now in a plugged situation, because somehow or other you have managed to send us considerable quantities of your merchandise.

Please try and clear up this situation so that we can resume business on a normal basis, as I cannot live with the present situation.

My kindest personal regards to both you and Henry.

Yours very truly,

NORTHERN SPECIALTY SALES, INC.

Lewis O. Buchwach
President

LB:lkf
encls.
copies: fg, hk.

A 3397

January 7, 1971

165985

., Lindley, Operations Manager
arehouse & Distribution Company
1440 F eport Center
id, Utah 84016

., Lindley:

een advised by my Factory that there are several shipments on to your warehouse. Listed below is all the pertinent informa- t I have concerning each shipment. They are all the property ral Wholesale Toy in La Mirada, California. All charges for orage of this merchandise are to be made to Federal Wholesale.

iner #202606 - Invoice #165779 dated 12/30/70 ⑥
d from the Orient:

410 cartons	#0501	800 cartons	#0601
250	0520	1060	0701

tainer #201007 - Invoice #163617 dated 12/21/70 ③
ed from the Orient:

160 cartons	#0501 ①	800 cartons	#0601
250	0520	1060	0701

tainer #165972 - Invoice #163616 dated 12/21/70 ②
pped from the Orient:

600 cartons	#0520	25 cartons	#0601 ①
300	0521	850	0701 ②
300	0522	350	0801 ③

ail car #GTW595095 - Invoice #163615 dated 12/21/70 ①
163522
ipped from Elizabeth, N.J.:

1 3 cartons	#0553 ⑧	200 cartons	#4018 ⑨
1	0554 ⑨	130	4026 ⑪
	0563 ⑩	1175	4410 ⑫

Container #42356 - Invoice #165199 dated 12/28/70
Shipped from the Orient:

5 cartons	#0500	235 cartons	#0521 ⑥
120	0502 ③	235	0522 ⑦
13	0503 ④	472	0701
335	0520 ⑤	520	0801

(contd.)

A 3398

Container #1648 - Invoice #165193 dated 12/23/70 (4)
Shipped from the Orient:

295 cartons #0500
120 0502
[illegible] 0520
295 0521

295 cartons #0522
520 0701
520 0801

Please send the Warehousing Agreement that you require to:

Mr. William Bernstein, President
Federal Wholesale Toy Company
14407 Alondra Boulevard
La Mirada, California 90638

Mr. Bernstein will sign the form and return it to you.

Thank you very much for your cooperation.

Cordially,

Topper Corporation

Jerry Gross
Regional Sales Manager

JG:eg

cc: Mr. Alex Hughes
Mr. Sandy Obolsky
Mr. Bud Thomas
Mr. Bill Bernstein - Federal Wholesale Toy

H

A 3399

Northern Specialty Sales, Inc.

6635 N. BALTIMORE • P.O. BOX 03160 • PORTLAND, OREGON 97203
AREA CODE 503 • 286-0641

NORTHWESTS MOST COMPLETE SELECTION OF THE WORLD'S LEADING TOY LINES

December 21, 1970

CERTIFIED - AIR MAIL

Mr. Fred Pierce
Vice President, Sales
Topper Corporation
107 Trumbull Street
Elizabeth, New Jersey 07206

Dear Fred:

I have been going over the order placed in Las Vegas very thoroughly, and because we find that we are finishing the year with a tremendous carryover, particularly in Topper and Mattel, we physically do not have the space, and I don't think it makes sense to bring in the quantities of merchandise reflected on this order.

I am herewith sending you a suggested order of what can be physically sent to us. Anything beyond this order can be billed to us if it helps you in any way, but certainly not shipped to us.

At the present moment I find myself with over $1,000,000 in inventory on just Mattel and Topper -- Topper alone is almost $400,000. Although the $400,000 inventory this year is what I would consider clean because 60% or more is in the Dawn category; nonetheless, I am not in a position to give up the balance of my warehouse space which, in effect, would put me out of business with my other lines.

I want you to go over this adjusted order and cooperate with us in seeing to it that we do not have a burdensome problem. Thank you for your cooperation in this matter.

Kindest personal regards.

Yours very truly,

NORTHERN SPECIALTY SALES, INC.

Lew

Lewis O. Buchwach
President

OK TO [illegible]
Ship TO
Per Lew 12/28
FM

LOB:lhf
encl.
copies: Mr. Henry Orenstein, President, Topper Corporation
Mr. Jerry Gross
file.

IMPORTERS • DISTRIBUTORS

A 3400

January 7, 1971

Mr. Paul M. Lindley, Operations Manager
National Warehouse & Distribution Company
P.O. Box 1443   Freeport Center
Clearfield, Utah 84016

Dear Mr. Lindley:

I have been advised by my Factory that there are several shipments on the way to your warehouse. Listed below is all the pertinent information that I have concerning each shipment. They are all the property of Blatt Distributing Company in La Mirada, California. All charges for the storage of this merchandise are to be made to Blatt Distributing.

All of the merchandise listed below is manufactured by the Topper Corporation.

Container #53156 - Invoice #165797 dated 12/31/70 C1
Shipped from the Orient:

160 cartons	#0500	325 cartons	#0520
96	0501	219	0521
96	0502	220	0522
38	0503	410	0701
76	0507	300	0801
77	0510		

Container #37443 - Invoice #165798 dated 12/31/70 C2
Shipped from the Orient:

1400 cartons #0301

Container #51225 - Invoice #165799 dated 12/31/70 C3
Shipped from the Orient:

1400 cartons #0301

Container #52151 - Invoice #165800 dated 12/31/70 C4
Shipped from the Orient:

3600 cartons #0500

Container #50466 - Invoice #165801 dated 12/31/70 C5
Shipped from the Orient:

3600 cartons #0500

(contd.)

A 3401

Container #54305 - Invoice #165802 dated 12/31/70
Shipped from the Orient:

110 cartons	#0500	1463 cartons	#0520
127	0501	820	0521
[illegible]	0503		

4

Container #43125 - Invoice #165803 dated 12/31/70
Shipped from the Orient:

123 cartons	#0500	1374 cartons	#0520
112	0502	355	0521
117	0503		

7

Container #51799 - Invoice #165804 dated 12/31/70
Shipped from the Orient:

140 cartons	#0501	660 cartons	#0521
230	0503	700	0301
703	0520		

8

Container #58337 - Invoice #165805 dated 12/31/70
Shipped from the Orient:

150 cartons	#0500	1162 cartons	#0520
55	0501	430	0521
62	0502	504	0522
130	0503	500	0701

9

If any information concerning Blatt Distributing is required, please address all correspondence to:

Mr. Robert Fogel, Vice-President
Blatt Distributing Company
P.O. Box 458
La Mirada, California 90638

To the best of my knowledge Blatt Distributing has already executed a Warehousing Agreement with your company.

Thank you very much for your cooperation.

Cordially,

Topper Corporation

Jerry Gross
Regional Sales Manager

JG:eg

cc: Mr. Alex Hughes
Mr. Sandy Obalsky - Mr. Bud Thomas
Mr. [illegible] Fogel, Blatt [illegible]

A 3402

TOPPER CORPORATION

ANALYSIS OF TOPPER ITEMS BY QUANTITY PER INVOICE

CUSTOMER NAME	INVOICE #	#	500	501	502	503	509	510	520	521	522	601	706	801	4018	4026	4410	553	558	563	[illegible]
ELLIOTT DISTRIBUTION	165797	1	169	96	96	38	76	77	325	219	220		410	300							
	165798	1												1408							
	165799	1												1438							
	165800	1	3600																		
	165801	1	3600																		
	165802	1	110	127		50			1463	820											
	165803	1	128		119	177			1374	355											
	165804	1		140		250			788	660				900							
	165805	1	150	56	62	130			1162	410	504		502								
			7757	419	277	645	76	77	5112	2464	724		910	3516							
FEDERAL WHOLESALE	163615 163522	3													200	130	1175	168	201	200	5968103 975102
	163616	1							600	300	300	25	850	350							
	163617	1	660						250			800	1000								
	165198	1	285		120				325	285	285		580	520							
	165199	4	285		120	48			365	285			472	520							
	165779	1		410					250			800	1062								
			1230	410	240	48			1570	870	585	1625	3962	1390	200	130	1175	168	201	200	
NORTHERN SPECIALTY	164829	3														289		72	222		1045415
	164830	3											100								231334
	164831	2	264		107	43			246	257	257		600	579							
	164832	2	250		107	27			267	257	257		556	603							
	165701	1											1030	900							
	165785	3													300		1200	166	203		6911136
	165829	1							760			300	570	630							
	165830	1							700			300	570	232							
			514		214	70			1973	514	514	600	3426	3217	300	289	1200	238	425		

# ①-INVOICE INDICATES SHIPMENT TO CLEARFIELD

②-INVOICE INDICATES SHIPMENT TO CUSTOMER

③-INVOICE INDICATES SHIPMENT FROM ELIZABETH TO CLEARFIELD

④ 165199 VOIDED AND REPLACED BY 165455. QUANTITIES ARE SAME EXCEPT FOR THE FOLLOWING:

QUANTITY	ITEM #	
554	706	(SEE INVOICE 165936)
550	801	(" " ")

J

A 3403

CORPORATION

MEMORANDUM NO. A 4100 DATE 5/3/71

MEMORANDUM NO. A 4100 DATE RECEIVED / /

Alex Hughes

om Jerry Gross

ubject Inventory in Clearfield, Utah

File under Utah

RECEIVED BY

SIGN & RETURN TO

tached is a 2 page summary by item (quantity stated by number of rtons) of the merchandise that we have stored at National arehouse, Clearfield, Utah. This is merchandise for which we ave responsibility although it is being stored under 4 different ames, - Blatt Distributing, Federal Wholesale, Northern Specialty nd Topper Corporation.

n addition to the merchandise on the attached summary we also ave 4712 cartons that are in Clearfield stored for Pensick & ordon. Some of this merchandise is carried over from 1970 and ome was authorized at Toy Fair to be shipped from Los Angeles nd stored there. The detail on the inventory follows:

TOCK #	INVENTORY ON SUMMARY	P&G ACCOUNT	TOTAL
110	1100 cartons	1569 cartons	2669 cartons
550	1789	482	2271
553	800	300	1100
102	---	396	396
105	0--	983	983
305	---	60	60
015	---	150	150
2009	---	214	214
2010	---	168	168
	---	200	200
2044	---	83	83
2046	---	99	99
	Total cartons P&G stock	4712	64531 - Utah
	Grand Total		69243

JG:cs

A 3404

January 7, 1971

Mr. Paul M. Lindley, Operations Manager
National Warehouse & Distribution Company
P.O. Box 1043 Freeport Center
Clearfield, Utah 84016

Dear Mr. Lindley:

I have been advised by my Factory that there are several shipments on the way to you and [illegible] from different points of origin. Listed below is all the pertinent information that I have concerning each shipment. They are all the property of Northern Specialty Sales Company in Portland, Oregon. All charges for the storage of this merchandise are to be made to Northern Specialty.

All of the merchandise listed below is manufactured by the Topper Corporation.

Container #43672 - Invoice dated 12/31/70 - #165829
Shipped from the Orient:

700 cartons	#0520	570 cartons	#0701
300	0601	600	0301

Container #52740 - Invoice dated 12/31/70 - #165830
Shipped from the Orient:

700 cartons	#0520	570 cartons	#0701
300	0601	600	0301

Container #1531 - Invoice dated 12/29/70 - #165701
Shipped from the Orient:

1000 cartons	#0701	900 cartons	#0801

① C, U
P, OR

Container #34646 - Invoice dated 12/22/70 - #164832
Shipped from the Orient:

250 cartons	#0500	257 cartons	#0521
197	0502	257	0522
77	0503	536	0701
257	0520	600	0301

① P, OR

(contd.)

A 3405

Page 2

Container [illegible] - Invoice dated 12/22/70 - #164331
Shipped from the Orient:

		257 cartons	#0521
264 cartons	#0501	257	0522
197	0502	600	0701
83	0503	577	0901
288	[illegible]		

Rail car [illegible] - Invoice dated 12/30/70 - #165795
Shipped from Elizabeth, New Jersey: 70 215

2a

		300 cartons	#4018
165 cartons	[illegible]	1200	4410
[illegible]	[illegible]		

LCL shipment via Garret Freight Lines - Invoice dated 12/22/70 - #164030
Shipped from Elizabeth, New Jersey:

-1

100 cartons #0701

LCL shipment via Garret Freight Lines - Invoice dated 12/22/70 - #164029
Shipped from Elizabeth, New Jersey:

		280 cartons	#4026 ✓ -2
72 cartons	#553		
222	554		

If any information concerning Northern Specialty Sales is required, please address all correspondence to:

Mr. Lewis Buchwach, President
Northern Specialty Sales Company
6625 North Baltimore Street
Portland, Oregon 97203

To the best of my knowledge, Northern Specialty has already executed a Warehousing Agreement with your Company, if not please be sure to contact Mr. Buchwach.

Thank you very much for your cooperation.

Cordially,

Topper Corporation

Jerry Gross
Regional Sales Manager

JG:mg

cc: Mr. Alex Hughes
Mr. Sandy Obolsky - Mr. Bud Thomas
Mr. Lew Buchwach - Northern Specialty

P. EXH 1101
RL 1/20/75

A 3406

TOPPER CORPORATION

CONSOLIDATED BALANCE SHEET

May 31, 1972

ASSETS

Current assets:		
Cash (including $50,000 held for creditor settlements)		$ 233,759
Accounts receivable (Note 3)		
Trade, less allowance of $531,000 for uncollectable accounts	$2,703,747	
Other, less allowance of $162,679 for uncollectable accounts	91,296	2,795,043
Inventories (Notes 4 and 9)		7,398,226
Prepaid expenses		114,404
Fixed assets held for sale (Note 5)		100,000
Total current assets		10,641,432

Fixed assets (Note 5)

	Cost	Depreciation and amortization	Book value	
Machinery and equipment	$3,080,145	$1,158,820	1,921,325	
Leasehold improvements	1,936,703	1,817,816	118,887	
Tooling	1,253,111	449,601	803,510	
	$6,269,959	$3,426,237		2,843,722

Other assets:	
Unamortized debt discount (Note 7)	219,212
Investments in and advances to unconsolidated subsidiary, at cost (Note 2)	60,727
Other	15,165
	295,104
	$13,780,258

See accompanying notes.

LIABILITIES AND CAPITAL DEFICIENCY

Current liabilities:		
Demand loans (Note 8)		$16,328,834
Accounts payable arising prior to February 11, 1972 (Note 9)		2,240,604
Accounts payable arising subsequent to February 11, 1972		1,132,728
Accrued expenses		1,072,705
Credit balances applicable to customer accounts (Note 3)		1,086,679
Current portion of other long-term liabilities		436,013
Total current liabilities		22,297,563
Long-term liabilities:		
Accounts payable arising prior to February 11, 1972 (Note 9)		3,141,679
Other long-term liabilities (Note 10)		6,438,399
		9,580,078
Total liabilities		31,877,641
Commitments and contingencies (Notes 6 and 13)		
Capital deficiency (Notes 8, 11 and 12):		
5% cumulative preferred stock, par value $100: Authorized and issued 30,000 shares, including 1,751 in treasury	$ 3,000,000	
Common stock, par value $1: Authorized 5,000,000 shares, issued 3,770,826 shares including 50,600 shares in treasury	3,770,826	
Capital surplus	9,851,190	
Deficit	(31,483,250)	
Less treasury stock, at cost	(245,140)	
Total capital deficiency		(18,097,383)
		$13,780,258

$16,328,834
2,240,604
1,132,728
1,072,705
1,066,679
436,013
22,297,563
2,141,673
6,428,399
9,570,076
31,877,641
00
26
90
50)
40)
(18,097,293)
$13,780,258

A 3407

1/21/73

DRAFT

1. General

In April 1971, the Company issued its Annual Report to Stockholders which included consolidated financial statements for the year ended December 31, 1970, indicating total assets of $50,042,000 and stockholders' equity of $11,048,000. On October 26, 1971, the Company reported, on an unaudited basis, record sales ($37,779,000) and earnings ($1,472,000) for the nine months ended September 30, 1971. On December 2, 1971, the Company announced that sales and earnings for 1971 would be "quite disappointing". Two weeks later, Mr. Orenstein, then President of the Company, further reported that the Company's operations for 1971 would result in a "very substantial loss".

In January 1972, the Company entered into a number of discussions with its secured lenders, noteholders and trade and service creditors which ultimately resulted in the refinancing arrangements described in Notes 8, 9 and 10. In connection with the foregoing, the Company's Board of Directors was reduced in size and a new President and Chief Executive Officer was elected. Following the resignation of the Company's financial executives, the Board of Directors also appointed a new Executive Vice President and Treasurer.

Following the December 1971 announcements, substantial credits were granted for merchandise returns, exchanges and allowances, a portion of which were unrecorded in individual customer accounts at May 31, 1972. As a result, extensive negotiations were required to settle customer accounts at that date. As described in Note 3, credits aggregating approximately $24,000,000 were provided against customer accounts subsequent to December 1, 1971 for returns, exchanges, allowances and uncollectible amounts. During the course of settling customer accounts, present management became aware of a number of prior agreements made by the Company with its customers providing for rights of return, exchange and other concessions applicable to substantial amounts of 1970 sales. The Company's consolidated financial statements for the year ended December 31, 1970 were prepared without giving effect to these agreements. Accordingly, present management believes that the loss which is reflected by the changes in the balance sheet accounts during the seventeen months ended May 31, 1972

(j)

was not incurred solely during that period. On an arithmetical basis, such loss would amount to $37,232,000, the difference between the Company's consolidated earned surplus at December 31, 1970 ($2,749,000) and the consolidated deficit ($34,483,000) set forth in the accompanying balance sheet. In connection with the foregoing the Company's independent public accountants have informed the Company that they have withdrawn their report on the Company's consolidated financial statements for the year ended December 31, 1970.

(2)

Merchandise returns also contributed to the build-up of substantial carryover inventories of the 1971 Topper line. This build-up, together with the Company's liquidity problems, led management in 1972 to discontinue production of the Topper line, pending disposal of such inventories. As discussed in Note 4, through December 15, 1972, the Company had sold or agreed to sell approximately $9,830,000 of the Topper finished goods inventory on hand at May 31, 1972, at a $4,965,000 discount from cost.

During 1972, the Company continued production of its Sesame Street line, primarily in fulfillment of an exclusive distribution agreement entered into in July 1972 with Gabriel Industries Incorporated (Gabriel) which agreement terminated in December 1972. In December 1972 and January 1973, Muppets Inc. and Children's Television Workshop terminated their agreement with the Company whereby the Company had been granted the right to produce and market its Sesame Street line, thereby terminating the Company's only current operations. See Note 14 However, the Company continues to negotiate the renewal of these agreements in connection with the organization of a joint venture with Gabriel mentioned below.

(6)

After giving effect to the matters referred to above, and additional write-downs of Topper inventories and related fixed assets, the Company's current liabilities exceeded its current assets by $11,657,000 and its total liabilities exceeded its total assets by $18,097,000 at May 31, 1972. Subsequent operations for the six months ended November 30, 1972 resulted in a loss of $2,800,000 (unaudited). At December 15, 1972, the Company was in default under the terms of its debt agreements, and as a result, a substantial portion of the Company's long-term debt may be accelerated. (See Note 8, 9 and 10.) (5) See 1st paragraph.

The Company is ~~currently~~ actively negotiating the organization of a joint venture with Gabriel Industries, Inc. for the production, marketing and financing of its Sesame Street line of products. It contemplates the early reorganization of the remaining operations in Topper Corporation for the purpose of returning to the production and distribution of the Topper line of products. The Company can give no assurance that these efforts will succeed.

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693 Priscilla [illegible]

DRAFT

2. Basis of consolidated balance sheet

The consolidated balance sheet has been prepared in accordance with generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the ordinary course of business. However, the Company's ability to do so is dependent upon achieving a profitable level of operations in the future ~~and~~ securing the necessary financial support in connection with the prospective reorganization described in Note 1 and

The consolidated balance sheet includes the accounts of Tepper Corporation and its wholly-owned domestic subsidiaries, Educational Toys, Inc. (ETI) and two inactive companies. A wholly-owned Hong Kong subsidiary, whose operations are not significant, has not been consolidated. The Company's underlying equity in this subsidiary on a going concern basis amounted to approximately $98,000 at May 31, 1972. However, there is no assurance that the Company will ultimately recover its investment and advances as reflected in the accompanying consolidated balance sheet.

A 3410

DRAFT

3. Trade accounts receivable and customer credit balances

At May 31, 1972 trade receivables, after deducting related reserves, and customer credit balances consist of:

	Trade receivables	Customer credit balances
Topper Corporation - Topper lines	$ 948,852	$1,080,005
ETI - Sesame Street lines	1,754,765	6,674
	$2,703,647	$1,086,679

The difficulties described in Note 1 which the Company experienced during late 1971 and 1972 resulted in severe problems in the collections and control of Topper accounts receivable, including substantial claims for customer credits for returns, breakage and allowances, a portion which were unrecorded in individual customer accounts. In addition, the Company's secured lenders opposed allowing customers to offset Topper credits against monies due ETI. At May 31, 1972, Topper customer credit balances include approximately $453,000 which could be offset against ETI receivables.

As a result of the foregoing, extensive negotiations were required with customers to settle and collect disputed balances. While settlements have not been concluded with all customers and additional customer claims may materialize in the future, management believes, based on data presently available, that adequate provision has been made in the accompanying consolidated balance sheet for customer claims or losses on uncollectible accounts. Subsequent to December 1, 1971, credits of approximately $24,000,000 for returns, exchanges, allowances and uncollectible amounts were provided against Topper accounts. The Company's Board of Directors has ratified the action taken by management in arriving at the balances reflected above.

(5)

In addition, with respect to certain Topper merchandise sold in late 1971 and early 1972, certain customers have claimed return privileges resulting from the Company's failure to provide a television promotional campaign in 1972. The Company has denied any obligations to accept such returns.

4. Inventories

Inventories at May 31, 1972 were as follows:

	Topper lines	Sesame Street lines	Total
Finished goods at cost (principally first in - first out)	$10,937,284	$ 851,478	$11,788,762
Reserve to realizable value	6,070,000	100,000	6,170,000
	4,867,284	751,478	5,618,762
Work in process and raw materials at cost (principally first in - first out)	3,583,504	1,150,960	4,734,464
Reserve to realizable value	2,908,000	47,000	2,955,000
	675,504	1,103,960	1,779,464
Total inventory	$ 5,542,788	$1,855,438	$ 7,398,226

In connection with discontinuing production of the Topper line, the Company undertook the liquidation of its Topper finished goods inventory on a "close-out" basis. In June 1972, the Company agreed to sell all of its domestic inventory of Dancing Dawn dolls and outfits to Wisconsin Toy and Novelty Company for $1,724,000, a $625,000 discount from cost of $2,359,000. Subsequent sales of other Topper lines through December 15, 1972 were negotiated at increasing discounts from cost. At that date, the Company had sold or agreed to sell, principally to the same toy company, additional inventory costing approximately $7,473,000 for approximately $3,143,000, a $4,330,000 discount from cost. All such inventory must be shipped by February 1973, though payments on some sales extend through October 1973. The remaining unsold Topper finished goods inventory, amounting to approximately $1,105,000, has been reserved for in full. Of the $4,867,284 net carrying value of the Topper finished goods inventory, the Company has realized approximately $2,100,000 in cash by December 15, 1972.

The Topper work in process and raw materials inventory at May 31, 1972 has been valued based on the estimated realizable value through scrap sales or use in future production.

In the opinion of management, the Company will ultimately realize not less than the net carrying value of the Topper inventories reflected above.

The Sesame Street finished goods inventory is principally carried at its realizable value based on its sale to Gabriel Industries, Inc. (Gabriel) in July 1972. See Note 14. Upon

5. Fixed assets

Machinery and equipment are depreciated on a straight-line basis over their estimated useful lives, varying from three to twelve years, and leasehold improvements are amortized over the shorter of their estimated useful life or the life of the applicable lease.

In connection with discontinuing production of the Topper line, the Company wrote off approximately $1,000,000 of machinery and equipment as having no estimated on-going or realizable value. The Company segregated for sale Topper machinery and equipment having a realizable value of $100,000 (after $109,000 writedown) which amount has been reclassified as a current asset. After reflecting these adjustments, machinery and equipment in the accompanying consolidated balance sheet include approximately $208,000 (at net book value) of idle equipment which is available for future Topper operations.

In addition, the Company is negotiating for the sale of its molding operation, including related leasehold improvements and machinery and equipment having a net book value of approximately $746,000.

Tooling purchased ($7,233,000) at October 4, 1966, date of commencement of operations, was amortized on a straight-line method over a five-year period. Tooling acquired subsequent to October 4, 1966 is amortized on a straight-line method over two years in the case of the Topper lines and three years in the case of the Sesame Street lines. At May 31, 1972, tooling is comprised of $100,000 related to Topper lines (after reflecting a $181,000 writedown to estimated on-going value), $490,000 related to current Sesame Street lines and $214,000 related to Sesame Street lines for which production has not yet commenced.

In connection with the closing of the Company's New York City showroom in the spring of 1972, the related unamortized cost ($420,000) of leasehold improvements has been written off.

DRAFT

6. Leased facilities and equipment

The Company occupies its manufacturing, warehouse and office space under a long-term lease which expires December 31, 1981, at an annual rental, including taxes, of approximately $857,000. The Company presently intends to vacate approximately 70% of this space. At December 15, 1972, it has subleased a portion of the already vacated space for varying periods up to four years, with annual rentals of approximately $38,000. No provision has been made in the accompanying balance sheet for future rentals because the Company believes that it will be able to complete the subleasing of the vacated space on favorable terms.

In addition, the Company leases space, formerly used for its New York City showroom, through 1978, at an annual rental of approximately $60,000. The Company has provided $30,000 in the accompanying consolidated balance sheet for estimated lease cancellation costs.

The Company also leases certain operating equipment through June 1976 at an annual rental of $31,000.

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DRAFT

7. Debt Discount

Debt discount and other expenses incurred in connection with the financing of the long-term debt are deferred and amortized over the life of the debt.

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693 Priscilla (by Maria)

DRAFT

8. Demand notes

Demand loans at May 31, 1972 were as follows:

9% demand note payable to bank, secured by bonded warehouse receipts on inventory	$ 1,787,692
Demand loans under the Restated Finance Agreement	14,541,142
	$16,328,834

In April 1972, the Company entered into a Restated Finance Agreement (RFA) with its secured lenders to provide funds for its on-going business operations. The RFA consolidated existing bank loans with the $7,000,000 promissory note due 1976 issued to a private lender in 1971. Under the terms of the RFA, as amended, the banks and private lender may loan the Company up to $15,000,000 at May 31, 1972, declining in amount thereafter to $6,800,000 when due in April 1973. Such loans bear interest at the rate of 10% or 5.5% in excess of the prime commercial rate (5.25% at May 31, 1972), whichever is higher. These loans are secured by an interest in all present and future accounts receivable, inventories and fixed assets located in the United States, and proceeds of life insurance policies carried on certain officers.

Prior to the sale of ETI's inventory to Gabriel as described in Note 14, the secured lenders in July 1972 demanded payment of the loan balances in excess of $8,000,000. The Company was unable to make such payment and the secured lenders took possession of the inventory and applied the proceeds from the sale for their account. At December 15, 1972, the loan balance aggregated $12,216,935 and the non-payment of the balance in excess of $8,000,000 continues to constitute an event of default. Further, the Company's default with respect to the payment of interest on its 7-1/2% convertible subordinated notes, described in Note 10, constitutes an event of default under the terms of the RFA. Defauls under the RFA constitute events of default under the terms of the 9% demand note payable to the bank.

Under the terms of the RFA, the Company may not declare or pay cash dividends on its common stock or make any payment on account of the purchase, redemption or other retirement of any shares of its common stock.

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693 Priscilla (by Maria)

DRAFT

9. Accounts payable arising prior to February 11, 1972

Pursuant to an agreement with a creditors' committee representing the Company's trade and service creditors, those creditors who agreed and were either owed $1,000 or less or reduced their claims to $1,000 at February 11, 1972, received 50% of their claims in cash in full settlement thereof. Those creditors who agreed and were owed more than $1,000 at February 11, 1972 received 10% of their claims in cash and are entitled to receive payment of four annual 10% installments beginning April 7, 1973. In addition, depending on future earnings, the Company is contingently liable to pay these creditors three annual 10% installments from 25% of after tax earnings, as defined, for each of the three years commencing January 1, 1977 on a non-cumulative basis. This creditors' agreement was accepted by approximately 95% of the creditors concerned. Accordingly, the accompanying consolidated balance sheet reflects the forgiveness of $4,958,000 of trade and service creditors payable, which amount includes $2,895,000 for which the Company remains contingently liable.

At May 31, 1972, after reflecting the above, accounts payable arising prior to February 11, 1972 were as follows:

	Current	Long-term
Extended payments under the terms of the creditors' agreement described above. Such payments are subordinated to all other outstanding debt of the Company	$1,010,832	$2,900,013
Payments based on individual settlements with other creditors:		
Domestic vendors	554,903	91,666
Vendors located in the Far East	348,000	
Amounts owed creditors with whom settlements had not been consummated at December 15, 1972	326,869	150,000
	$2,240,604	$3,141,679

By December 15, 1972, the Company had paid $315,000 of the amount due vendors located in the Far East. Of this amount, $206,000 was paid from the proceeds of a loan from a Hong Kong Bank, secured by $208,000 of inventory, after deducting related reserves, located in the Far East.

At December 15, 1972, the Company is in default with respect to certain payments required under individual settlement agreements with trade and service creditors reflected above. Some of these creditors may seek legal remedies to collect amounts due.

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10. Other long-term liabilities

Other long-term liabilities at May 31, 1972 were as follows:

Non-interest bearing notes, due in four equal annual installments beginning in 1973	$1,539,000
7-1/2% convertible subordinated notes, due September 30, 1986, annual installments of $525,000 beginning in 1977, convertible into common stock at $5.00 per share	5,250,000
Other	85,412
	6,874,412
Current portion of long-term liabilities	436,013
	$6,438,399

Other long-term liabilities due for the five calendar years 1973 through 1977 are $436,013, $393,275, $384,750, $384,750 and $525,000, respectively.

In April 1972, holders of $3,850,000 10% subordinated notes due January 31, 1972 exchanged their notes for (a) $384,750 cash, (b) $1,539,000 of non-interest bearing notes due in four equal annual installments beginning in 1973, (c) 8,797 shares of 5% cumulative preferred stock with an aggregate par value of $879,700, (d) warrants to purchase 90,000 shares of the Company's common stock (Note 11) and (e) contingent payments aggregating $135,000. The contingent payments are payable in three annual installments of up to $45,000 depending on the Company's after tax ~~profits~~ earnings, as defined, for each of the three years commencing January 1, 1977. Accordingly, the accompanying consolidated balance sheet reflects the forgiveness of $146,550 of the 10% subordinated notes, including the $135,000 for which the Company remains contingently liable.

The holders of the 7-1/2% convertible subordinated notes (issued by the Company in 1971), in an exchange for reducing the conversion price of such notes from $15.00 to $5.00 per share of common stock, agreed in April 1972 that prior to September 30, 1974 they would not commence or prosecute any action, suit or other proceedings against the Company or seek

DRAFT

to enforce any claims against the Company now existing which claims are (a) based upon, arise out of or involve any alleged acts or omissions by or on behalf of the Company in connection with the offering or sale of the notes to the holders thereof or are (b) based upon the occurrence of an event of default under the terms of the related note agreement which, among other things, require the Company to maintain a minimum consolidated working capital of $20,000,000 and consolidated tangible net worth of $15,000,000. However, one of the conditions of this waiver of the noteholders' rights was that the Company pay monthly interest on such notes commencing April 30, 1972. Through December 15, 1972, no interest payments have been made and the Company is in arrears with respect to interest payments in the amount of $262,500. As a result of this default in interest payments, the holders of the 7-1/2% convertible subordinated notes may accelerate the due date of such notes.

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11. Capital stock and surplus

The following summarizes the changes in shares of common stock and 5% cumulative preferred stock for the seventeen months ended May 31, 1972:

	Common stock		5% Cumulative preferred stock	
	Issued	Treasury	Issued	Treasury
Balance, December 31, 1970	3,078,574	(50,600)	30,000	(10,200)
Shares sold to public on April 29, 1971	658,525			
Options exercised	42,727			
Shares redeemed				(348)
Shares issued to 10% subordinated noteholders				8,797
Balance, May 31, 1972	3,779,826	(50,600)	30,000	(1,751)

At May 31, 1972, the Company was $152,288 in arrears with respect to dividends on its 5% cumulative preferred stock. The Company must annually set aside in a sinking fund, 10% of its consolidated earnings, after taxes, for the preceding fiscal year for the redemption of such preferred stock. No provision is required for the seventeen months ended May 31, 1972.

In connection with the Company's refinancing described in Note 10, the Company issued warrants for 90,000 shares of common stock at a purchase price of $1.00 per share. These warrants expire on March 31, 1982. Subject to the shareholders' approval of an increase in the authorized shares of preferred stock, the warrant holders may surrender their warrants in exchange for 9,000 shares of the Company's 5% cumulative preferred stock. The warrant holders, at their option and depending on future consolidated earnings of the Company, can alternatively require the Company to repurchase the warrants at a price of $100 per unit (each unit consisting of 10 warrants) or a total of $900,000.

Shares of common stock reserved for conversion of the subordinated notes and exercise of warrants and options at May 31, 1972 were as follows:

7-1/2% convertible subordinated notes (Note 10)	1,050,000
Warrants	90,000
Stock options (Note 12)	112,5[illegible]9
	1,252,5[illegible]9

At December 15, 1972, the Company had granted options on 29,811 shares of common stock in excess of those reserved for issuance above.

11. Capital stock and surplus (Cont'd)

The following summarizes the changes in capital surplus for the seventeen months ended May 31, 1972:

Balance, December 31, 1970	$3,310,554
Proceeds from sale of common stock, less related expenses of $176,465	5,526,361
Face amount of 10% Subordinated Notes exchanged for warrants which, under certain circumstances, may be exchanged for 9,000 shares of preferred stock, aggregate par value $900,000	900,000
Proceeds in excess of par value of shares issued on stock options	114,275
Balance, May 31, 1972	$9,851,190

12. Stock options

Under the terms of the Company's 1969 Qualified Stock Option Plan, options on the Company's common stock may be granted to officers and key employees of the Company for a period of five years, at a price not less than the fair market value of the common stock at the date of grant and are exercisable 25% upon grant and 25% per year thereafter. Options granted prior to 1969 under a former plan become exercisable four years and expire five years from date of grant.

Option transactions during the seventeen months ended May 31, 1972 are summarized below:

	Shares under option	Prices per share	Amount
At December 31, 1970	139,626	$1.33-1/3 - $ 6.00	$ 531,554
Options granted	72,950	7.75 - 14.75	1,044,512
Options exercised	(42,727)	1.33-1/3 - 7.75	(157,002)
Options cancelled	(103,307)	1.33-1/3 - 14.75	(1,017,858)
At May 31, 1972	66,542	1.33-1/3 - 14.75	$ 401,206

The options outstanding at May 31, 1972 are exercisable with respect to 44,964 shares and become exercisable with respect to 13,378 shares during the remainder of 1972, 4,264 shares in 1973, and 3,936 shares in 1974.

With respect to the options outstanding at December 31, 1970, there had been no market for the Company's stock at the time 134,626 of these options were granted. However, management believes that these options were granted at a purchase price which at the time of grant was not less than fair market value.

There were 46,057 shares of common stock available for grant at May 31, 1972. In June 1972, subject to shareholders' approval, the Company granted options to certain employees on 105,500 shares of the Company's common stock at $1.00 per share. Subsequent to May 31, 1972, options on 29,632 shares of the Company's common stock had been cancelled.

[illegible]

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13. Legal proceedings and other matters

The Company is a defendant, together with some of its present and former officers and directors, as well as various other parties, in several actions pending in the United States District Court for the Southern District of New York, alleging liability under Sections of the Securities Acts of 1933 and 1934 and the rules and regulations promulgated thereunder. The several actions have been consolidated and have been declared to be a class action maintainable on behalf of two subclasses, namely, all persons who purchased shares of the common stock of the Company pursuant to a Registration Statement which became effective April 29, 1971 in alleged violation of Section 11 of the Securities Act of 1933 and who suffered damages thereby and all persons who purchased shares of the common stock of the Company between April 29, 1971 and December 20, 1971, and who suffered damage as a result of a claimed violation of Section 17 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Due to the lack of pre-trial proceedings at this stage, neither management nor the Company's counsel is in a position to ascertain the nature and extent of the Company's liability, if any, or the size of the various classes. However, the maximum potential liability of the Company by reason of the claims asserted in these actions is such that, if said claims are well founded, the potential liability, if any, of the Company may far exceed the present resources of the Company available to satisfy such liability. Certain co-defendants in the consolidated action have asserted cross-claims against the Company for any damages for which they may be liable. These cross-claims, if well founded, could increase the Company's exposure in these actions.

The Company is a named defendant in an action pending in the Supreme Court of the State of New York, County of New York, alleged to be brought derivatively on behalf of the Company against certain of [illegible]s directors and officers based on various allegations of mismanagement and breaches of fiduciary duty, including specifically the sale by certain individuals of stock of the Company using confidential and undisclosed information. Since the action is brought derivatively, plaintiff seeks no recovery against the Company. The action has been stayed pending the outcome of the class action cited in the paragraph above.

On March 30, 1972, the Securities and Exchange Commission instituted and is proceeding with a private investigation into various aspects of the Company's activities, including questions concerning prospectuses, reports filed with the Commission, and releases concerning the financial condition of the Company. The Commission's staff has examined and obtained copies of numerous documents from the Company and has taken

14. Sesame Street contracts and agreements

The Company's wholly-owned subsidiary, ETI, manufactures and distributes a line of educational toys under the name "Sesame Street" pursuant to an agreement entered into in March 1971 with Children's Television Workshop (CTW) which agreement expires on December 31, 1974. Among other things, CTW must approve product design, advertising and wholesale prices. CTW is to receive royalties, with $1,050,000 payable on a non-refundable basis by May 15, 1972. At May 31, 1972, ETI had paid $525,000 of this amount. In July 1972, the agreement was amended to require payment of the remaining $525,000 on a weekly basis through December 31, 1972, with the full $1,050,000 to be applied as royalties for the period then ended. Accordingly, the accompanying consolidated balance sheet reflects the $525,000 payable to CTW, with the full $1,050,000 having been expensed because of the Company's inability to recover these royalties during the remainder of the year. CTW also agreed to permit ETI to produce additional toys under the Sesame Street name in 1973 in return for a non-refundable royalty of $250,000 payable by December 31, 1972. At January 1972, the Company had paid the total $1,300,000 to CTW. The Company and CTW have been negotiating a further amendment to the contract which would establish, among other things, payment terms for additional non-refundable royalties for 1973 and 1974 and would resolve the status of certain defaults under the existing agreement. On January 19, 1973, CTW announced the termination of its contractual agreement with Topper and ETI thereby terminating the Company's only current operations. However, the Company and CTW continue to negotiate the renewal of the agreement in connection with the organization of a joint venture with Gabriel Industries, Inc. (Note 1). Should this negotiation terminate, the Company will seek appropriate legal action to enforce continuance of the present agreement with CTW.

Under the terms of a license agreement entered into in May 1971 with Muppets, Inc., ETI received the right to use the "muppet" characters, trademark likenesses and visual representations for certain items associated with the Sesame Street line of products in return for the payment of a royalty to Muppets, Inc. based upon a percentage of net sales. At

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A 3424

DRAFT

A number of creditors and others have commenced actions alleging claims against the Company for approximately $667,000. Of this amount, claims for approximately $377,000 were settled for approximately $197,000, which amount is included as a liability in the accompanying consolidated balance sheet at May 31, 1972. With respect to approximately $290,000 of unsettled claims, the accompanying consolidated balance sheet reflects accrued liabilities of $123,000 applicable thereto.

The Company is also involved in several patent and copyright infringement suits brought by another toy manufacturer. In the opinion of counsel, the Company has good defenses against such suits.

In addition, the Company has been advised that it may have substantial liabilities, as yet undetermined in amount ⑤ resulting from failure to comply with U. S. Customs rule and regulations relating to filing of documentation on items imported from the Orient.

November 17, 1972, the Company had paid $304,507 to Muppets, Inc., under terms of this agreement for royalties earned through June 1972. However, as a result of the non-payment of royalties for the quarter ended September 30, 1972, Muppets, Inc. terminated its agreement with ETI on December 7, 1972, at which time accrued royalties were $214,464. Reactivation of this agreement is an essential factor in the negotiation with CTW and the organization of the joint venture with Gabriel (Note 1).

In July 1972, ETI entered into an agreement with Gabriel Industries, Inc., whereby Gabriel was appointed sole distributor in the United States for the Sesame Street line of toys. Gabriel purchased all of ETI's finished goods inventory, on hand at July 26, 1972, for approximately $1,069,000 (Note 4) and placed purchase orders for $4,547,000 of additional items. Gabriel had but did not exercise options to purchase an additional $4,000,000 of Sesame Street toys and as a consequence the agreement has been terminated. While the Company may now sell its Sesame Street line to other customers, as mentioned above it is presently negotiating with Gabriel for the establishment of a joint venture to produce and market its Sesame Street line.

A 3426 PX 1111

Having gone public in June, 1970, previous management made every effort to make 1970 a successful year. Topper made heavy purchase commitments for Dawn Dolls and clothing in the Orient. Similarly, a record television campaign was planned to promote these products. Approximately $__________ of this T.V. program would be purchased through three customers, LasM, Tamaron and Vornado. Since Topper never issued merchandise credits or paid these amounts, the customers were forced to deduct them from other invoice payments. On December 31, 1970 Topper's books did not reflect any accrual for these expenses. It was not until December 31, 1971 that Topper first accrued for LasM and Tamaron. The $230,000 Vornado expenditure was never recorded.

ADV. was properly Accrued @ 12/31/70

$230,000 Vornado ADV for 1971 was never Booked + LASM + TAMCO. 1971

In order to induce customers to place additional commitments in the fall of 1970, Topper offered a special "spring" sales program to customers. While regular 1970 invoices were carrying _____% trade discount, spring sales carried 10 and 10% for direct shipments to customers. If a customer elected, Topper would store the merchandise at their Elizabeth facility (under the supervision of NYTCO Services, Inc.) or certain outside warehouses for delivery on or before ~~August 31~~ September 1, 1971. With this election, the discount was reduced to 10 and 8% to give a 2% effect to storage, handling and insurance charges. This provision was grossly inadequate. In addition, Topper agreed to finance their receivables through the summer of 1971 and permit customers to exchange this merchandise for any new 1971 products which would be introduced at the March 1971 Toy Fair. This would enable customers to purchase 1971 merchandise at the special discount since the 1971 sales policy provided for only one 10% discount.

See 1970 Special Sales Policy

Opinion

In total, Topper sold $16,000,000 under the spring program in 1970. Only $3,000,000 was actually shipped to customers for Christmas 1970. The remaining 13,000,000 was not intended to reach the retail stores until the fall of 1971. The Elizabeth warehouse held $3,000,000 under the bill and hold arrangement at Dec. 31, 1970. The remaining $10,000,000 (at sales value) was purchased under the "Container program." Under this program, merchandise was produced in the Orient (see first paragraph) and packed in containers for shipment to the US. Of this amount $7,000,000 was consigned directly to customers, the balance was shipped to Elizabeth, NJ under the

(consigned [illegible])

See JBM List of Extended Term Invoices

bill and hold arrangement. A majority of those containers were shipped in the last week of December for delivery to Topper's customers in February, ~~1972~~. 1971

It is difficult to determine whether the container program was the result of a massive over-commitment for Orient merchandise which was produced too late for Christmas delivery. In any case, these sales should not have been included in Topper's income statements for 1970. Based on the information available at December 31, 1970, Arthur Young & Company, along with Jack Rose, Senior Vice President Finance concluded that a reserve was necessary for the profit on the $3,000,000 of bill and hold merchandise located in the Elizabeth warehouse at December 31. An additional reserve of $425,000 for advertising allowances were recorded against extended term sales. However, no reserve was recorded against the profit on the $10,000,000 container shipment. The gross profit on this sale amounted to approximately $6,500,000. Net profit for 1970 was only $353,127.

OPINION (5)

It is my opinion that the exchange privilege alone, which was not common knowledge, was sufficient to regard these spring orders as 1971 business. Even the merchandise ordered and shipped in the fall of 1970 which carried the exchange privilege, was at best, a sale on consignment.

Exchange letters

(10)

In one case Lionel Leisure was shipped $1,000,000 against a spring order of $600,000. This was not a major problem for the customer since Topper paid the warehousing costs and would permit Lionel Leisure to exchange this merchandise at Toy Fair for new products. At Toy Fair the customer placed an order to cover his 1971 needs. He was requested by Topper to defer the return of his spring order which was virtually unsold. As a result, Topper carried duplicate receivables for a large part of 1971, which represented merchandise was to be eventually returned or marked down by 2/3.

See Fred Rosen Memo

e) If not consignment sale then change in accounting procedure

(5) The reserve of $1,457,000 at 12/31/70 related only to the $3,000,000 in NYTCO at 12/31/70. It is possible that Arthur Young + J. Rose, in subsequent conversations, related the amount to the entire $16,000,000

(10) Although I cannot attach any evidence, I will highlight my argument:

a) In previous years, Topper had not given exchange privileges to the extent of $16,000,000
b) While Topper hoped to create a new market for the early months of 1971, many customers had no intention of using this product until fall 71
c) Since all orders were received at Toy Fair to conform to 71 needs - the large amount of unshipped spring order was in effect a large part of 71's total commitment
d) [illegible] wanted to return $250,000 [illegible] of spring order - Topper would not give authorization until customer finally demanded it in November

[redacted]

To go a little further on this point we should consider the bill and hold merchandise located in the Elizabeth warehouse in early 1971. On various occassions it was easier for Topper to satisfy customer requests for merchandise from Topper's own inventory as opposed to the merchandise under NYTCO's control. This also resulted in duplicate billing and the inflation of receivables since customers felt that they had fulfilled their commitment. Topper had never issued credit for the bill and hold merchandise. This problem illustrates one of the major problems with the 1971 financials.

Cannot prove w/o a complete analysis of mdse involved. NYTCO

OPINION

In early 1971 additional merchandise amounting to $________ was placed in the Elizabeth warehouse under the bill and hold arrangement. These sales carried a trade discount of only 10%. In May, 1971, Topper was holding $________ under this arrangement. Customers had not drawn out merchandise since retail sales were exceptionally slow. Topper permitted customers to redate the invoices due May 10 and August 10 until cash could be generated from retail sales. Several other factors which contributed to the extremely large value of accounts receivable will follow below.

8%

REDATING

In several cases I noted that several customers were deliberately billed at a price in excess of their purchase order with the intention of issuing a credit at a later time. The largest incident of this type occurred with Kings Department Stores. Their purchase order clearly states that the Dawn Fashion Show would be purchased at a net price of $4.00. Topper [illegible] ~~proceeded~~ to bill at $_____ which resulted in overbilling of $_________.

Another common dilution to receivables resulted from Toppers failure to record certain credits for the return of merchandise. In the case of Interstate Stores, the customer returned $ 197,000 of   in NOV 1971 and did not receive credit until current management settled their account in June, 1972. Problems of this type were generally related to the exchange privilege mentioned earlier. Several customers were not required to accept

ALSO - VORNADO, GLOBE WHLSE, ALL NYTCO CUSTOMERS

[redacted]

A -1- 3429

reshipment of other products.

In September, 1971, Topper was holding $__________ in their Elizabeth warehouse which had been billed to customers. Previous management extended the take-down date to October 1 and later to November 1. In addition, there were other factors which contributed to the swelling of receivables in September, coincidently the end of the their quarter. Topper had entered into a warehouse arrangement with several customers, including Lionel Leisure and Blatt Distributing. Under this agreement, Topper shipped and billed approximately $1,000,000 to Lionel Leisure's warehouses in Georgia, and Florida ~~and Philadelphia~~.

See Warehouse Program Papers

However, these shipments did not represent outright sales. Lionel would only warehouse the merchandise and redistribute to the ultimate purchaser at Topper's direction. This enabled Topper to facilitate delivery to distant customers during the anticipated peak season. In consideration, Lionel would earn a 9% warehousing fee in the following manner: originally billed at an effective rate of 81% list, they received credit upon shipment at 90%. Even more important was the fact that Topper customers purchased only $80,000. The agreement with Lionel itself resulted in a considerable overstatement of__________ profit at September 30, not to mention the other five major customers who were involved.

Also during the last two weeks of September, previous management announced their 1972 spring sales program. This program also carried the same terms as a year earlier offering 10% and 10% discounts, warehousing and insurance at 10% and 8%, and extended dating. It is difficult to understand how previous management could expect customers to place additional commitments with so many million of dollars in unshipped bill and hold merchandise. Even by promising the cancellation of customers' commitments Topper was able to sell one $1,000,000 of container merchandise. No credits were issued and these containers were billed on September 30.

Opinion

Spring '72 Program

A 3430

Ford Motor Credit Company

Intra Company

January 3, 1972

To: File

Subject: Topper Corporation

The management of the subject corporation announced on December 17, 1971 that a loss of approximately $15 million will be reported for 1971. The primary causes of this substantial loss are: 1.) return of about $16 million (sales) of merchandise sold under an extended billing program; these items, principally "Dawn" dolls did not sell well at retail; 2.) poor fourth quarter sales because of reduced demand for toys and because of effects of prolonged dock strikes. After two recent meetings in New York with the company's management and other lenders we have determined our position to be as follows.

The lending banks have agreed to a pro rata distribution to FMCC of proceeds from receivables collections. At the beginning of this period (December 27) the banks had a loan balance of approximately $9.9 million and FMCC had $7.0 million outstanding. The company has indicated that for the five week period ended 1/29/72 it will need approximately $4.2 million to continue operations (payroll, other cash expenses, material for production, interest). The lenders have agreed to advance these funds, but only from receivables collections.

An abbreviated projected cash flow has been submitted by the company for the period ending 1/29/72. It is summarized below.

(000's omitted)

Week ended	12/31/71	1/8/72	1/15/72	1/22/72	1/29/72	Total
Receivables:						
Opening Balance	$14,100	$13,150	$12,175	$ 9,875	$ 7,925	$14,100
Sales	350	250	1,200	2,550	2,700	7,050
Sub-Total	14,450	13,400	13,375	12,425	10,625	21,150
Collections	1,300	1,225	3,500	4,500	4,675	15,200
Ending Balance	$13,150	$12,175	$ 9,875	$ 7,925	$ 5,950	$ 5,950
Disbursements	$ 1,075	$ 850	$ 865	$ 700	$ 700	$ 4,190
Loan Account:						
Opening Balance	$17,000	$16,775	$16,400	$13,765	$ 9,965	$17,000
Borrowings	1,075	850	865	700	700	4,190
Sub-Total	18,075	17,625	17,265	14,465	10,665	21,190
Collections	1,300	1,225	3,500	4,500	4,675	15,200
Ending Balance	$16,775	$16,400	$13,765	$ 9,965	$ 5,990	$ 5,990

PX 1279
9-30-75
D.A.C

The above projection assumes that $4 million of returned merchandise can be sold at cost during January. If the company can perform in this manner, total loans will be reduced to $[illegible].0 million (FNCC - $[illegible].5 million) by the end of January secured by approximately $[illegible] million in accounts receivable (either Aaa or generated since 1/1/72), $[illegible] million in inventory ([illegible] - 9 million finished goods) and $[illegible] million in fixed assets at book value. Accordingly our collateral position would appear to be reasonably sound, and even should bankruptcy occur our position should remain secure since FNCC and the bank lenders are secured by all of Topper's assets.

The lenders have agreed to meet again in New York on January 24, 1972 to review the company's progress and to discuss the next steps to be taken. In the meantime we will follow on a daily basis the company's collection experience. We have made clear to company management and the other lenders that we expect our loan to be repaid in the shortest period possible.

R. H. Tavery

DATE RUN 08/02/71 TOPPER CORPORATION TIME 15.42.59 PAGE 1

TRIAL BALANCE
JUNE 30, 1971

ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
101.0100	PETTY CASH - GENERAL OFFICE	3,000.00			
101.0300	PETTY CASH TRAFFIC	500.00			
101.0400	PETTY CASH - MAINTENANCE	100.00		3,600.00	
104.0000	CASH-UNION CO TR-HRLY PAYROLL	11,443.30			
104.0200	CASH-UNION CO TR-SUPV PAYROLL	100.00			
104.0300	CASH-UNION CO TR EXEC&SUP P/R	12,959.65			
104.0400	CASH-NATL STATE ELIZ-EXEC P/R	100.00			
104.0500	CASH-NATL STATE ELIZ-TRAVEL	20,000.00			
104.0600	CASH NATL STATE BANK SP C ACCT	10,000.00			
104.2900	CASH-UNION FIDELITY-INT. ACCT	1,000.00			
104.1000	CASH-UNION FIDELITY-COLLATERAL	750,000.00		805,432.98	
105.0000	CASH MFR HANOVER-COLLATERAL	1,000,000.00			
105.0100	CASH-MFR. HANOVER-OPERATING	193,919.09			
105.0200	CASH MFG HANOVER FREIGHT	5,000.00		1,203,919.09	
106.0000	CASH-FNC BANK DEP. ACCT.	250,000.00		250,000.00	
113.0000	CLAIMS RECEIVABLE - FREIGHT	38,471.11			
113.0100	CLAIMS RECEIVABLE-OTHER	59,667.60			
113.0900	ALLOWANCE FOR UNCOLLECT CLAIMS		9,605.27	98,088.71	9,605.27
114.0000	ACCOUNTS RECEIVABLE-NOT BILLED	550.16		550.16	
115.0000	ACCOUNTS RECEIVABLE-TRADE	32,299,385.53			
115.0600	ALLOW FOR UNCOLLECTIBLE ACCTS		569,609.79		
115.0700	ALLOW FOR UNAPPLIED DEDUCTIONS		43,406.06		
115.0800	ALLOW FOR DISCOUNTS ADVERTISNG		1,059,083.69		
115.0900	PROVISION-TERMINAL WH SALES		1,215,550.60	32,299,385.53	2,920,649.13
116.0000	ACCOUNTS RECEIVABLE OTHER	18,915.06			
116.0100	ACCOUNTS RECEIVABLE-OTHER-ROYA	27,500.00		46,415.06	
117.0000	LOANS AND EXCHANGES	52,477.49			
117.0100	RESERVE FOR LOANS & EXCHANGES		12,000.00	52,477.49	12,000.00
118.0000	TRAVEL ORDER CLEARING ACCOUNT		5,929.85		5,929.85
119.0000	ADVANCE TO SUPPLIERS	12,322.58		12,322.58	
130.0000	TOPPER TOYS INC CURRENT ACCT	421,136.76		421,136.76	
131.0000	YOUTH CAPE CURRENT ACCT	2,300,940.61		2,300,940.61	
132.0000	TOPPER TOYS LTD H.K.	152,031.44		152,031.44	
135.0000	REALIZABLE VALUE CANADIAN SUB	35,626.46			
135.0100	RESERVE FOR LOSS ON INVESTMENT		35,626.46	35,626.46	35,626.46
140.0000	RAW MATERIALS	1,811,321.47			
140.0200	P.M. AND W.I.P. INVENTORY RES.		420,000.00		
140.2000	DROP SHIPMENTS	72,870.93			
140.3000	PARTS FROM MOLDING DIVISION	1,503,877.15			
140.5100	HI-IMPACT STYRENES	54,584.92			
140.5200	GENERAL PURPOSE STYRENES	2,059.35			
140.5500	LINEAR POLYETHYLENES	108,968.11			
140.5700	POLYPROPYLENES	20,263.20			
140.5900	VINYLS	6,650.81			
140.6000	BUTYRATES	2,408.78			
140.6100	CELLULOSE ACETATES	5,521.27			
140.8300	ACETEL	25,271.44			
140.8400	COPOLYMERS	21,759.37		3,635,656.88	420,000.00
141.0000	INVENTORY-CONTAINERS	3,007.95		3,007.95	

[illegible] # 35,[illegible] 30.83

[illegible] 102,312.73

P. EXH 1326

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TRIAL BALANCE
JUNE 30, 1971

ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
143.0000	WORK IN PROCESS	189,716.37			
143.5000	WORK IN PROCESS - MOLDING DIVI	37,763.60		227,479.97	
145.0000	FINISHED GOODS	4,820,113.59			
145.0100	FINISHED GOODS INVENTORY RES.		230,000.00		
145.0300	INVENTORY IN OUTSIDE LOCATIONS	328,162.69		5,148,276.58	230,000.00
170.0000	MACH & EQUIP EXCEPT MOLD DIV.	2,626,152.09			
170.0100	MACH & EQUIP-ALLOW FOR DEP		719,835.81	2,626,152.09	719,835.81
171.0000	CONVEYOR	412,012.73			
171.0100	CONVEYOR ALLOWANCE FOR DEPR		128,425.35	412,012.73	128,425.35
173.0100	LEASEHOLD IMPROV-ALLOW FOR DEP		1,622,842.63		
173.1000	LEASEHOLD IMPROV-SPORT-FACTORY	1,755,224.42			
173.1100	LSEHLD IMPROV-SPORT-MOLD PLANT	12,949.80			
173.1200	LEASEHOLD IMPROVEMENTS-OFFICES	75,130.85			
173.1300	LEASEHOLD IMPROVEMENTS-NY OFF	63,728.05		1,907,033.12	1,622,842.63
174.0000	AUTOS	9,914.53			
174.0100	AUTOS-ALLOWAN FOR DEPRECIATION		1,652.40	9,914.53	1,652.40
175.0000	FURNITURE FIXTURES & OFF EQUIP	359,552.76			
175.0001	FURN & FIX HONG KONG	12,681.54			
175.0100	FURN FIX OFF EQU ALLOW FOR DEP		168,079.04		
175.0101	FUR & FIX HONG KONG ALLOW DEPR		830.94		
175.0500	FURN FIX OFF EQ-FLORIDA OFF	250.00			
175.0501	FUR & FIX FLORIDA OFFICE DEP		24.98	372,484.30	168,934.96
176.0000	MOLDING EQUIPMENT	1,212,257.53			
176.0100	MOLDING EQUIPMNT-ALLOW FOR DEP		442,283.10	1,212,257.53	442,283.10
179.0000	CONSTR & ENG CHANGES OF MOLDS	24.50		24.50	
182.0000	PREPAID INSURANCE	355,243.88			
182.0700	PREPAID OFFICERS LIFE INSURANC	7,231.79		362,475.67	
183.0100	DEPOSITS RENT-FLORIDA OFF.	45.00		45.00	
184.0000	DEPOSITS-UTILITIES	40.00			
184.0100	DEPOSITS-UTILITIES-FLORIDA OF	50.00		90.00	
185.0000	DEPOSITS OTHER	105,807.00		105,807.00	
186.0000	PREPAID PROPERTY TAX	277.46		277.46	
187.0000	PREPAID EXP EDUCATIONAL	334,649.80		334,649.80	
190.0000	PREPAID OTHER	69,258.35			
190.0100	PREPAID ADVERTISING	35,915.62			
190.0200	DEBT DISCOUNT	153,798.49		258,972.46	
194.0000	TOOLING ABSORTION		789,310.02		
194.0001	ADJ FOR STATEMENT		1,653,910.76		
194.0002	PREVIOUS YEARS AMORT OF MOLDS		1,786,700.47		
194.0500	MOLDS DOLL DAWN	82,339.66			
194.0501	MOLDS-GLORI DOLL	12,975.83			
194.0502	MOLDS-ANGIE DOLL	16,953.49			
194.0503	MOLDS-DALE DOLL&BLACKO	11,704.49			
194.0504	MOLDS	2,750.00			
194.0506	VAN BOY	494.00			
194.0510	MOLD	3,078.00			
194.0511	MAJORETTE DAWN	14,523.75			
194.0520	MOLD-DANCING-DAWN	114,365.20			
194.0524	MOLD DANCING GARY	150.00			

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TRIAL BALANCE
JUNE 30, 1971

ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
194.0550	MOLDS FASHION SHOW	277,350.26			
194.0551	MOLDS CAR WITH DOLL	36,219.88			
194.0552	MOLDS SOFA & TELEPHONE	53,545.50			
194.0553	MOLDS MUSIC BOX	21,550.44			
194.0554	MOLDS-BEAUTY PARLOR	956.78			
194.0555	MOLDS CARRYING CASE	4,892.72			
194.0556	MOLDS DAWN N ME POCKET BOOK	36,105.01			
194.0558	MOLD-DAWN-STAGE	259,526.59			
194.0559	DAWN AND OUTFITS	3,031.20			
194.0560	MOLD-FEMALE-DISC-DOLL	19,420.48			
194.0561	MOLD-DRESS-ROUT	49,657.81			
194.0562	MOLD	1,452.10			
194.0563	MOLD-DOLL-CASE	11,125.57			
194.0564	MOLD KEVIN DISCOTHEQUE	5,303.68			
194.0565	MOLD-DAWN-DISCOTHEQUE	130,172.86			
194.0566	MOLD 3 DOLL CASE	8,342.14			
194.0567	MOLD-CAR	1,055.29			
194.0568	MOLD	773.39			
194.0569	MOLD FLORAL STAND	1,249.50			
194.0570	MOLD FLORAL STAND	9,216.98			
194.0571	FLORAL STAND	42.52			
194.0590	MOLDS-DAWN-STORE DISPLAY	225.00			
194.0600	MOLDS-DAWN OUTFIT ASST.24PC.	233.68			
194.0700	MOLDS-DAWN OUTFIT ASST.24PC.	292.66			
194.0701	DAWN OUTFIT	12.50			
194.0800	MOLDS-DAWN OUTFIT ASST.24PC.	262.66			
194.0801	DAWN OUTFIT	12.50			
194.1031	MOLDS-P.B.-BEAUTY PARLOR	4,453.51			
194.1050	MOLDS-PB TRAVEL OUTFIT	11,359.53			
194.1801	MOLDS LITTLE MISS FUSSY	344.14			
194.1803	MOLDS-7 WALKER DOLL	2,526.04			
194.1804	MOLDS-TINY BABY CRAWLER	3,621.56			
194.1807	MOLDS DANCING DOLL	3,707.21			
194.1808	MOLDS BABY LUV N CARE	121,565.97			
194.1810	MOLDS LRG DOLLS BLK BABY LUVNC	62.48			
194.1817	MOLDS BABY PEEK N PLAY	44,327.59			
194.1818	MOLDS-BABY PEEKN PLAY W/ACC.	1,709.17			
194.1819	MOLDS LRG DOLLS BABY CTCH BALL	64,551.07			
194.1820	MOLDS-BABY CRAWLER	4,671.99			
194.1821	MOLDS-BUSY BABIES-BABY WALKER	6,386037			
194.1822	MOLDS-TINY LITTLE MISS FUSSY	2,878.96			
194.1823	MOLDS-TINY BABY PARTY	3,986.25			
194.1824	MOLDS-BUSY BABY TT 10	10,799.47			
194.1827	MOLD-TV-DOLL	137,526.74			
194.1828	MOLD BLACK SMARTYPANTS	1,922.38			
194.1849	MOLDS ACCORDION	17,116.34			
194.2001	MOLDS-LARGE OVEN	4,000.00			
194.2003	MOLDS-VAC CLEANER	553.06			
194.2008	MOLD SM BLENDER	1,063.02			

TRIAL BALANCE
JUNE 30, 1971

ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
194.2013	MOLDS-FUSSY DOLL ACC.	195.54			
194.2014	MOLD SH FOOD MIXER	1,657.07			
194.2018	MOLDS-S.H.MEDIUM OVEN	20,096.59			
194.2028	MOLDS CORN POPPER	108,941.14			
194.2029	MOLDS JUICER	69,397.12			
194.2041	MOLDS SUPER OVEN	116,399.76			
194.2042	MOLDS MEDIUM OVEN	23,592.28			
194.2043	MOLDS	608.75			
194.2044	MOLDS TRAVEL MIRROR	58,902.65			
194.2046	MOLDS-REG INCINERATOR	161.43			
194.2061	MOLDS ICE CREAM MAKER	24,903.43			
194.2062	MOLDS ICE DELIGHT MAKER	41,035.22			
194.2063	MOLDS SODA FOUNTAIN	33,661.79			
194.2064	MOLDS CANDY MAKER	29,699.19			
194.2065	MOLDS TAFFY PULLER	16,449.54			
194.2070	MOLDS REGULAR WASHER	2,652.01			
194.2071	S.H. SMALL OVEN	4,038.26			
194.2072	MOLDS-S H-SMALL IRON	929.16			
194.2073	MOLDS-S H-SMALL VACUUM CLEANER	1,765.29			
194.2074	MOLDS REGULAR REFRIGERATOR	27,623.53			
194.2075	MOLDS S.H. SMALL HAIR DRYER	5,019.52			
194.2076	MOLDS REGULAR SINK	3,395.07			
194.2077	MOLDS REGULAR DISHWASHER	2,430.00			
194.2078	MOLDS-S.H.SMALL BLENDER	3,059.29			
194.2101	MOLDS BAGS & THINGS	13,297.94			
194.2102	MOLDS SPECS & THINGS	3,255.16			
194.2130	MOLDS FLOWER MOLD KIT	3,948.67			
194.2131	MOLDS CONE MOLD KIT	2,623.19			
194.2132	MOLDS PLAIN MOLD KIT	2,629.88			
194.2133	MOLDS B & T-ACCESSORY KIT	96.86			
194.2135	MOLDS ROSE MOLD KIT	2,358.78			
194.2136	MOLDS HORSESHOE MOLD KIT	2,881.04			
194.2137	MOLDS HEART MOLD KIT	2,943.54			
194.2138	MOLDS- S & T-ACCESSORY KIT	293.49			
194.2140	MOLDS- B & T-ASSORTMENT KIT	450.14			
194.3000	MOLD-MCN-ROBOT	203,230.12			
194.3001	MOLD	768.30			
194.3004	MOLD-STRAIGHT-TRACK-SET	1,778.97			
194.3005	MOLD-BRIDGE-SET	94,318.58			
194.3007	MOLD	1,265.97			
194.3008	MOLD	702.25			
194.3009	MOLD	814.61			
194.3012	MOLD	72.33			
194.3015	MOLD ROBOT ASST	90.00			
194.3025	MOLD ROBOT ASST	90.00			
194.3030	MOLD ROBOT ASST	90.00			
194.3040	MOLDS	517.50			
194.3050	MOLDS-P.B.-CAR&BOAT	354.23			
194.3089	MOLDS-SUPER HELMET 7	1,438.94			

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TRIAL BALANCE
JUNE 30, 1971

ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
194.4000	[illegible] IGHTNING L M 500	229,675.87			
194.4001	MOLDS J.L. SET	23,049.47			
194.4002	MOLDS DOU[illegible] DRAG	33,403.35			
194.4003	MOLDS-J.L SINGLE DRAG W/TIMER	8,538.73			
194.4004	J.L. SINGLE TRACK W/CLAMP	534.37			
194.4005	MOLDS-LOOP THE LOOP ACC	8,622.93			
194.4006	MOLDS-J.L. INDIVIDUAL TRACK ST	145.29			
194.4007	MOLDS-CURVED TRACK ACC.	20,458.51			
194.4008	MOLDS-J.L. ACCESSORIES	955.69			
194.4009	MOLDS-J.L. CARRYING CASE	5,287.61			
194.4010	MOLDS- J.L. ASSORTMENT #1	33,688.07			
194.4011	MOLDS-J.L. CAR ASSORT PACK #2	6.64			
194.4012	MOLDS-J.L.-DISPLAY RACK	290.70			
194.4013	MOLDS-SUPER LOOP SET	210.75			
194.4014	MOLDS-J.L. FIRE LEAP	1,318.02			
194.4015	MOLDS HELMET	434.40			
194.4016	MOLDS JL CAR ASSORTMENT	9.07			
194.4021	MOLDS-J.L.FIVE JUMPER	1,317.07			
194.4022	MOLDS-J.L. PARAJUMPER	29,491.40			
194.4025	MOLD TROPHY CASE	64,909.11			
194.4026	MOLD-CAR-ASSORTMENT	134.03			
194.4050	MOLDS SPOILER	4,415.29			
194.4051	MOLDS TRIPLE THREAT	3,962.00			
194.4052	MOLDS BUG BOMB	667.00			
194.4053	MOLDS T.N.T.	1,234.50			
194.4054	MOLDS SMUGGLER	612.16			
194.4055	MOLDS SAND STORMER	317.25			
194.4056	MOLDS MOVIN VAN	545.00			
194.4057	MOLDS-J.L. MACK MAVERICK	290.00			
194.4058	MOLDS-J.L. FLAME OUT	23,825.00			
194.4061	MOLDS-J.L. STILLETTO 24 CARS	16,200.00			
194.4062	MOLDS VICIOUS VETTE	1,987.00			
194.4063	MOLDS DRAGSTER	541.00			
194.4064	MOLDS TURBINE	570.00			
194.4065	MOLDS 32 FORD	522.00			
194.4066	MOLDS FRANTIC FERRARI	2,877.00			
194.4067	MOLDS JUMPIN JAG	2,852.00			
194.4071	MOLD J LIGHTNING TRACKBACK	31,812.50			
194.4072	MOLDS - J L CONDOR	1,592.50			
194.4074	MOLDS-J.L. PARNELLI JONES	609.80			
194.4075	MOLDS-J.L.-A.J. FOYT INDY	723.45			
194.4076	MOLD J LIGHT ROCKET 500	13,480.50			
194.4077	MOLDS-J.L. VULTURE	27,300.00			
194.4080	MOLD-JL-GOLDEN-HAULER	28,927.50			
194.4081	MOLDS-J.L. WASP	10,406.35			
194.4084	MOLDS-J.L. BAJA	10,147.50			
194.4100	MOLDS JL JET POWER HILL CLIMB	618.30			
194.4101	MOLD JL.JET POWER FLYING JUMP	629.75			
194.4102	MOLDS COMPETITION	42,299.86			

A 3436

DATE RUN 02/02/71 TOPPER CORPORATION TIME 13.42.59. PAGE 6

TRIAL BALANCE
JUNE 30, 1971

ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
194.4104	MOLD J.L. J.P. SPEED TRACK	9,425.64			
194.4105	MOLDS COMPRESSOR	207,153.33			
194.4108	MOLDS JL JET POWER STRGHT TRK	276.71			
194.4109	MOLDS-J.L.J.P.CURVED TRACK	583.94			
194.4110	MOLDS-J.L.J.P. ASST.45 CARS	582.90			
194.4111	MOLDS J.P. SMOKE KIT	6,663.71			
194.4150	MOLDS MONSTER	20,471.32			
194.4151	MOLDS-J.L. JET POWER F.N.	1,102.50			
194.4152	MOLDS-J.L. JET POWER SCREAMER	17,077.00			
194.4153	MOLDS-J.L. JET POWER GLASSER	22,622.07			
194.4158	MOLD J.LIGHT JET PWR BAZC	19,110.00			
194.4164	MOLD J.LIGHTNING J.P. JUPITER	18,000.00			
194.4200	MOLDS RICOCHET DE LUXE	2,453.10			
194.4201	MOLDS RICOCHET DOUBLE JUMP	15,621.07			
194.4202	MOLDS RICOCHET TRIPLE LOOP	33,356.64			
194.4203	MOLDS RICOCHET GIANT LOOP	31,995.74			
194.4204	MOLDS RICOCHET RACEWAY	94,042.59			
194.4206	MOLDS-JLR STRAIGHT TRACK	290.00			
194.4207	MOLDS-JLR CURVED TRACK	553.03			
194.4300	MOLDS ROCKET 500 LE MANS	54,271.16			
194.4301	MOLDS ROCKET 500 INDY	367,357.51			
194.4302	MOLDS PIKES PEAK 500	8,021.61			
194.4303	MOLDS ROCKET 500 CYCLONE	101,438.15			
194.4304	MOLDS-J.L.ROCKET 500 PAN AM	331.75			
194.4305	MOLDS ROCKET 500 LAP COUNTER	11,970.05			
194.4306	MOLDS ROCKET 500 TIMER	5,720.00			
194.4310	MOLD-JL-DOUBLE-SPECIAL	76,228.04			
194.4311	MOLD BIG SWITCH	8,655.00			
194.4314	MOLD	18,191.81			
194.4315	MOLD	22,592.20			
194.4320	MOLD-JL-SINGLE-TRACK	129,550.03			
194.4321	MOLD-JL-SINGLE-TRACK-FIG-8	53,772.02			
194.4405	MOLD	27,583.99			
194.4410	MOLD-CUSTOM-ASSORTMENT	345.69			
194.4419	MOLD-JET-SET-SILVER	87,862.04			
194.4420	MOLD JOHNNY LIGHTNING-BIG RIG	7,925.89			
194.4421	MOLD-HAIRY-HAULER	14,683.90			
194.4422	MOLD-PIPE-DREAM	20,886.00			
194.4423	MOLD-TWIN-BLASTER	20,384.20			
194.4424	MOLD JOHNNY LIGHTNING WILD WIN	63,783.70			
194.4801	MOLD	1,071.00			
194.5040	MOLDS	51.03			
194.5239	MOLD	400.00			
194.6000	MOLDS JOHNNY SPEEDMOBILE	45,061.76			
194.6001	MOLDS JOHNNY SPACE MOBILE	33,245.07			
194.6002	MOLDS HELMET ZSPEEDMOBILE@	759.03			
194.6003	MOLDS HELMET ZSPACEMOBILE@	644.66			
194.6033	MOLDS-HELMET	1,160.07			
194.6300	MOLDS JOHNNY EAGLE RR RIFLE	48.34			

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TRIAL BALANCE
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ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
194.6330	MOLDS-J.E. SHOTGUN	525.76			
194.6332	MOLDS J E TRAP SHOOTER	21,935.98			
194.6335	MOLDS J.EAGLE R R PISTOL	431.35			
194.6774	MOLDS-J.EAGLERIFLE BULLETS=	68.56			
194.6472	MOLDS-J-EAGLE PLAQUE WESTERN	187.43			
194.6447	MOLD RED RIVER GIFT SET	13.33			
194.6701	MOLDS CORE BASIC	36,546.81			
194.6739	MOLDS- M M-CORE MOLD	4,845.79			
194.6740	MOLDS- M M-CORE ACCESSORIES	364.05			
194.6741	MOLDS CAVE MAN MOLD KIT	7,455.23			
194.6742	MOLDS-M M-CAVE MAN ACCESSORIES	263.57			
194.6743	MOLDS SCIENTIST MOLD KIT	8,233.57			
194.6744	MOLDS-M M SCIENTIST ACCESSORIES	263.57			
194.6745	MOLDS SPACE MONSTER MOLD KIT	8,647.60			
194.6746	MOLDS SPACE MONSTER ACCES KIT	332.05			
194.6747	MOLDS WOLF MAN MOLD KIT	9,042.39			
194.6748	MOLDS-M M WOLF MAN ACCESSORIES	298.58			
194.6749	MOLDS MUMMY MOLD KIT	8,876.92			
194.6750	MOLDS M M MUMMY ACCESSORIES	298.58			
194.6755	MOLDS-M.M.-MONSTER ASSORTMENT	250.68			
194.6803	MOLDS-J.S. BODY SHOP	24,392.56			
194.6804	MOLDS	760.00			
194.6910	MOLDS ROBOTRONS GOFER	8,937.55			
194.6911	MOLDS- ROBOTRONS EXPLO	11,055.58			
194.6912	MOLDS-ROBOTRONS-ROCKY	11,532.09			
194.6919	MOLD	105.49			
194.7100	MOLD DUMP TRUCK	59.57			
194.7101	MOLD CEMENT TRUCK	59.57			
194.7102	MOLD WRECKER	59.57			
194.7103	MOLD FIRE TRUCK	59.57			
194.7150	MOLD	61.61			
194.7151	MOLD	1,449.11			
194.7152	MOLD	1,569.11			
194.7153	MOLD	181.62			
194.7155	MOLD CONSTRUCT SET	5,754.00			
194.7160	MOLD	67.00			
194.7161	MOLD	778.00			
194.7200	MOLD SAND BUGGY	59.57			
194.7201	MOLD MIDGET RACER	59.57			
194.7202	MOLD HOT . ROD	59.56			
194.7203	MOLD FRANTIC FORD	59.56			
194.7205	MOLD	297.97			
194.7252	MOLD	41,196.66			
194.7253	MOLD	30,062.64			
194.7254	MOLD	30,370.00			
194.7300	MOLD-ZOOMER-BOOMER	33,167.53			
194.7301	MOLD-ZR-SPRING-MOTOR	54,472.95			
194.7376	MOLDS-SEARS-TRACK	71.02			
194.9977	MOLDS-SEARS MONSTER	157.82			

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TRIAL BALANCE
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ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
194.9080	MOLDS-B. BABIES SPECIAL	11.44			
194.9082	MOLDS-SEARS RAN BAGS	830.13			
194.9083	MOLDS-SEARS SHEET SM.	31.55			
194.9088	MOLDS-SEARS-VANITY	27.50			
194.9089	MOLDS-JCP-JL	124.32			
194.9090	MOLDS-JCP-JL.	24.29			
194.9091	MOLDS-JCP-JL	24.29			
194.9093	MOLDS-SPIEGAL-MONSTERS	33.33			
194.9096	MOLDS-ZAYRE-J. SERVICE	26.39			
194.9097	MOLDS-B. BABIES-KRESS SPEC.	11.44			
194.9098	MOLDS-MW-JL	132.65			
194.9100	MOLDS-M.W. J.S.	11.47			
194.9101	MOLDS-M.W. RENT	38.27			
194.9102	MOLD-M.W. RAN T.	28.27			
194.9103	MOLDS-J.L. KRESGE SPECIAL	240.05			
194.9104	MOLDS-ZAYRE-SPEC DISPL RCT	62.97			
194.9105	MOLDS-SPIEGAL-JL	50.83			
194.9106	MOLDS-ALDEN-JL	9.07			
194.9109	MOLDS-M.W. SPECIAL-ZAYRE	3,654.26			
194.9112	MOLDS-SEARS-CARS	157.65			
194.9117	MOLDS-JL-JCPENNEY SPEC	44.09			
194.9144	MOLD J LIGHTNING SERBING 8	1,547.82			
194.9148	MOLD M W OUTFIT	13.60			
194.9150	MOLD MW OUTFIT	166.70			
194.9151	MOLD M W 3 COLL	17.40			
194.9157	MOLD	66.20			
194.9160	MOLD JCP OUTFIT	19.30			
194.9162	MOLD	150.00			
194.9164	MOLD JCP DAWN F OUTFIT	36.10			
194.9165	MOLD JCP GLORI OUTFIT	26.20			
194.9170	MOLD SEARS JP SET	17.10			
194.9171	MOLD SPIEGEL ROBOTRON	34.32			
194.9173	MOLD	28.22			
194.9174	MOLD J LIGHTNING JET PWR MW	28.21			
194.9176	MOLD JL MW	28.20			
194.9182	MOLD DAWN M W SPECIAL	24.24			
194.9185	MOLD DAWN CAR MW SPEC	15.75			
194.9186	MOLD SEARS DAWN	13.40			
194.9194	MOLD	96.00			
194.9202	MOLD DAWN GIMBELS	183.00			
194.9203	MOLD S HOMEMAKER GIMBELS	750.76			
194.9205	MOLD	781.10			
194.9237	DANCING DAWN FLOOR STAND	715.00			
194.9240	DAWN AND OUTFITS	976.00			
194.9241	MOLD SPECIAL	71.63			
194.9294	DAWN AND FRIEND	282.01			
194.9800	MOLDS & DIES - MISC		230,493.10		
194.9801	MOLDS AND DIES GRIES	507,892.88			
194.9803	MOLDS AND DIES-TOPPER	42,632.50			

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TRIAL BALANCE
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ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
194.9804	MOLDS & DIES-CARS 1970	596,396.52			
194.9805	MOLD	16,443.00			
194.9810	MOLD	405,464.15			
194.9820	MOLD 3M PROJECT	123,730.00		7,322,923.49	4,460,414.39
194.9835	MOLD DRIES	265,000.00			
195.0000	ORGANIZATION EXPENSE	22,913.34		22,913.34	21,773.63
195.0100	ACCUM AMORT ORG EXPENSE		21,773.69		
196.0000	UNAMORT COST ROY AGREE	797,000.00		797,000.00	797,000.00
196.0100	ACCUM AMORT ROY AGREE		797,000.00		
197.0000	MOLDS AND DIES APPRAISAL	6,589,785.25		6,589,785.29	6,260,233.66
197.0100	ACCUM AMORT MOLDS & DIES APPR		6,260,233.66		
198.0100	INVESTMENTS	12,782.22			
198.0200	INVESTMENT TOPPER TOYS INC	1,000.00			
198.0201	INVESTMENT YOUTH CARE INC	1,000.00			
198.0202	INVESTMENT TOPPER TOYS HK	165.02			
198.0203	INVESTMENT-EDUCATIONAL TOY INC	1,000.00			
199.0300	TREASURY STOCK PREFERRED	1,020,000.00			
199.0400	TREASURY STOCK COMMON	70,039.29		1,141,300.13	
199.0500	SINK FUND 5% CUM PREF STOCK	35,313.20			
199.0000	CLEARING ACCOUNT		37.01		37.01
201.0000	LOAN PAYABLE - BANKS		18,191,247.34		
201.0100	CASH COLLATERAL LOAN		1,000,000.00		
201.0200	CASH-COLLATERAL LOAN-FIDELITY		750,000.00		19,941,247.34
203.0000	LOANS PAYABLE LETTER OF CREDIT		365,689.73		365,689.73
204.0000	ACCOUNTS PAYABLE NOT ENTERED		3,012,513.24		
204.0100	INSTALLMENT PURCHASE		81,139.48		3,093,652.72
205.0000	ACCOUNTS PAYABLE TRADE		3,221,045.20		3,221,045.20
206.0000	UNION DUES W/H	45.00		45.00	
207.0000	FIT W/H		128.30		128.30
208.0000	FICA W/H		40.89		40.89
209.0000	SUI W/H		28,878.75		28,878.75
210.0000	N.Y.S. AND N.J.E.T.T. W/H	727.94		727.94	
210.0100	NEW YORK CITY TAX W/H		90.10		90.10
215.0000	NEW JERSEY SALES TAX		2.78		2.78
217.0000	ACCR. STATE-LOCAL INCOME TAXES		162,997.31		162,997.31
220.0000	ACCRUED FEDERAL INCOME TAX		1,745,961.44		1,745,961.44
221.0000	ACCRUED PAYROLL		529,596.52		529,596.52
222.0100	ACCRUED VACATION PAY FACTORY	46,889.73		46,889.75	
223.0000	ACCRUED PROFIT SHARING		25,000.00		25,000.00
225.0000	ACCRUED COMMISSIONS		2,608.40		2,608.40
227.0000	ACCRUED UNCLAIMED WAGES		21,487.84		21,487.84
228.0000	ACCRUED EMPLOYEE WELFARE PLAN		31,414.00		31,414.00
234.0000	10% NOTES DUE JUNE 30 1972		3,850,000.00		3,850,000.00
237.0000	FEDERAL UNEMPLOY TAX ACCRUED		12,249.75		12,249.75
238.0000	FICA ACCRUED		13,895.10		13,895.10
239.0000	SUI ACCRUED		92,179.57		92,179.57
240.0000	ACCRUED ESTIMATED RETURNS		774,414.03		774,414.03
241.0000	ACCRUED PROFESSIONAL SERVICES	127,682.22		127,682.22	
243.0000	ACCRUED INTEREST		135,387.64		135,387.64

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ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
247.0000	ACCRUED GENERAL INSURANCE		84,884.86		84,884.86
248.0000	ACCRUED ROYALTIES		2,163.60		2,163.60
249.0000	ACCRUED EXPENSES OTHER		146,463.50		146,463.50
251.0000	ACCRUED GENERAL EXPENSES		41,637.94		41,637.94
256.0000	DEFERRED-INCOME		8,863.44		8,863.44
267.0000	PREF STOCK 5% CUM $100 PAR		3,000,000.00		3,000,000.00
270.0000	COMMON STOCK - $1 PAR		3,777,420.00		3,777,420.00
280.0000	EARNED SURPLUS		3,755,236.77		3,755,236.77
285.0000	CAPITAL SURPLUS		3,247,541.34		
285.0100	PREMIUM.ON COMMON STOCK		8,553,939.20		
285.0200	CAPITAL SURPLUS STOCK SPLIT	2,431,344.00			
285.0300	CAPITAL SURPLUS REG CHGS	320,913.62		2,752,257.62	11,801,480.54
303.0000	SALES-GROSS		22,869,121.86		22,869,121.86
304.0400	SALES-BEAU-LINE PRODUCTS LTD		27,176.82		
304.0500	SALES-LINES BROS. -EUROPE		41.69		
304.0600	SALES-MEXICO		5,115.14		32,333.65
350.0100	DISCOUNT-CASH	219,870.38		219,870.38	
351.0300	SALES ALLOWANCES-N.Y. TERMINAL	29,239.51			
351.0800	SALES-ALLOW PRICE ADJ CUR YEAR	386.70		29,626.21	
352.0000	DISCOUNT-ANTICIPATION	104,659.01		104,659.01	
355.0000	DISCOUNT - R.A.C. AND E.B.D.	2,103,242.62		2,103,242.62	
356.0000	DISCOUNT-WAREHOUSE	3,947.94		3,947.94	
358.0000	SALES ALLOWANCES-ADVERTISING	27,983.31		27,983.31	
359.0000	SALES ALLOWANCES - DISTR PROM	4,212.97		4,212.97	
360.0000	PROVISION FOR DISCOUNTS&ALLOW.	904,077.00		904,077.00	
361.0000	SALES ALLOWANCES - SHORTAGES		9,519.41		9,519.41
362.0000	SALES-CANCELATIONS	590.61		590.61	
400.0100	DEPR ABSORBED IN C/S MFG&CARS		219,024.61		
400.0200	DEPR ABSORBED IN C/S MOLDING		99,071.42		318,096.03
403.0000	COST OF SALES	10,270,604.83		10,270,604.83	
404.0000	COST OF SALES-ROYALTIES	544.42		544.42	
406.0400	COST OF SALES - BEAU LINE	24,932.90			
406.0500	COST OF SALES - LINES BROS. -	36.26			
406.0600	COST OF SALES-MEXICO	4,101.53		29,070.74	
409.0000	LETTERS OF CREDIT BANK CHARGES	18,811.53		18,811.53	
410.0000	FREIGHT - IN	142,430.85			
410.0100	FREIGHT - IN - RETURNS	24,139.28			
410.0300	FREIGHT-OUT	52,487.35			
410.0400	FREIGHT OUT TRACTOR RENTAL	34,573.11		253,630.59	
411.0000	VAR-MLDG MATERIAL PRICE		34,487.35		34,487.35
412.0000	MLDG. - DIRECT MATERIAL USAGE	646,406.63			
412.0100	DIRECT MATERIAL USAGE-COLORANT	5,897.38			
412.0900	MLDG. - DIRECT MATERIAL ABSORB		555,382.74	652,304.01	555,382.74
414.0000	MLDG. - DIRECT LABOR COST	137,640.34			
414.0900	MLDG. - DIRECT LABOR ABSORBED		177,824.66	137,640.34	177,824.66
415.0000	MOLDING DEPT OVERHEAD EXPENSES	865,870.81			
415.0900	MLDG.- O/H ABSORBED BY PROD		865,870.81	865,870.81	865,870.81
424.0000	PROD. - DIRECT LABOR COST	1,045,950.52			
424.0900	PROD. - DIRECT LABOR ABSORBED		760,596.57		

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ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
424.0901	DIRECT LABOR ABSORBED BY PROD.		25,732.92	1,045,950.32	785,329.49
425.0000	MFG OVERHEAD EXPENSES	2,435,979.77			
425.0100	CARS OVERHEAD EXPENSES	42,554.25			
425.0900	MFG OVERHEAD ABSORBED		2,435,979.77		
425.0901	OVERHEAD ABSORBED BY PROD CARS		42,554.25	2,478,534.02	2,478,534.02
426.0000	TOOLING COSTS	273,353.16			
426.0100	TOOLING COST-CARS	44,838.54			
426.0900	TOOLING COST ABSORBED		273,353.16		
426.0901	TOOLING ABSORBED BY PROD CARS		44,838.54	318,191.70	318,191.70
443.0000	PURCHASE DISCOUNTS	1,002.02		1,002.02	
500.0000	OTHER INCOME VENDING MACHINES		25.65		
500.0900	OTHER MISC		4,353.39		4,379.04
504.0000	OTHER INCOME ROYALTIES		162,900.91		
504.0100	ROYALTIES CANADIAN-MEXICAN MW	26,869.61		26,869.61	162,900.91
510.0000	OTHER INCOME INS RECOVERY		2,355.21		2,355.21
545.0000	OTHER DED-MISCELLANEOUS	236,373.85		236,373.85	
550.0100	OTHER DEDUCTIONS AMT OF FEES	43,333.56		43,333.56	
551.0000	OTHER DED DSPSL FAD		1,042.03		1,042.03
553.0000	OTHER DEDUCTIONS INTEREST	793,280.15			
553.0100	INT EXP 10% NOTES DUE JUNE1971	260,000.00			
553.0400	INT EXP OTHER	6,150.72		1,064,430.87	
555.0000	AMORTIZATION ORGANIZATION EXP	2,292.00		2,292.00	
556.0000	AMORTIZATION MOLDS & DIES	659,103.15			
556.0100	AMORTIZATION MOLD&DIES OTHER	828,144.58		1,487,247.73	
558.0000	CANADIAN EXPENSE	7,262.70		7,262.70	
570.0000	PROVISION FOR FEDERAL INC TAX	282,961.44		282,961.44	
665.0000	ADVERTISING EXPENSES ABSORPTION		2,730,630.00		
665.0001	ADVERTISING EXPENSE ABSORBED	2,730,630.00			
665.0100	PAYROLL - EXECUTIVE	5,076.99			
665.0200	PAYROLL - SUPERVISORY	33,762.76			
665.0500	PAYROLL - CLERICAL	10,213.66			
665.1100	PAYROLL TAXES	4,465.14			
665.2500	SUPPLIES - GENERAL	6,693.52			
665.4000	TRAVEL AND ENTERTAINMENT	2,273.67			
665.4950	ADVERTISING-TELEVISION	2,917,073.60			
665.4952	ADVERTISING-COMMERCIALS	361,123.92			
665.4953	ADVERTISING-SLIDES	15,826.39			
665.4954	ADVERTISING-PRINTS	107,607.79			
665.4955	ADVERTISING-TALENT	106,494.84			
665.4956	ADVERTISING-GLOSSY PRINTS	17,901.53			
665.4959	ADVERTISING-PROMOTIONS	19,518.04			
665.4960	ADVERTISING MISCELLANEOUS	86,947.62			
665.4962	ADVERTISING-CATALOGUES	72,138.61			
665.4963	ADVERTISING-PUBLICATIONS	20,713.48			
665.4964	ADVERTISING-PRODUCTION-PRINT	2,781.03			
665.4965	ADVERTISING-CAR-RACES	154,361.59			
665.4967	ADVERTISING COUNTY FAIRS	13,227.18			
665.5900	PUBLIC RELATIONS EXPENSE	14,191.88			
665.9920	MISCELLANEOUS	856.45		6,703,389.88	2,730,630.00

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TRIAL BALANCE
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ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
675.0100	PAYROLL - EXECUTIVE	51,736.59			
675.0200	PAYROLL - SUPERVISORY	166,031.56			
675.0201	PAYROLL-SUPERVISORY-MERCHANDS	150,928.59			
675.0900	PAYROLL - CLERICAL	23,352.21			
675.0902	SALES-CLERICAL OFF. ADMINISTR.	21,625.03			
675.0900	LABOR-TEMPORARY	814.75			
675.1000	RENT	275.00			
675.1100	PAYROLL TAXES	22,033.08			
675.1200	DEPRECIATION	12.48			
675.1400	LIGHT, HEAT, POWER AND WATER	6.57			
675.2400	RENTAL OF EQUIPMENT	140.66			
675.2500	SUPPLIES - GENERAL	3,935.63			
675.2800	MAINTENANCE & REPAIR	128.93			
675.4000	TRAVEL	226,512.59			
675.4002	T & E M BENSON	11,742.16			
675.4100	ENTERTAINMENT	1,691.77			
675.4102	ENTERTAINMENT - TOY FAIR	16,210.73			
675.4200	DEMONSTRATIONS	2,072.65			
675.4500	COMMISSIONS SALES	2,628.40			
675.4501	COMMISSIONS INCENTIVE PAYMENTS	27,095.65			
675.4503	FRANCHISE DIST. INCENTIVE PROG	285.75			
675.4900	POSTAGE & MAILING	4.63			
675.5000	TELEPHONE & TELEGRAPH	5,685.44			
675.5600	PROFESSIONAL SERVICES	12,498.00			
675.6100	SALES PROMOTION	46,972.26			
675.9800	DRUG & FOOD DISTR. EXPENSES	83,125.45			
675.9900	MISCELLANEOUS	14,040.28			
675.9901	MISCELLANEOUS-PREMIUMS	19,253.77		910,957.77	
701.0100	PAYROLL - EXECUTIVE	61,577.04			
701.0200	PAYROLL - SUPERVISORY	5,676.00			
701.0900	PAYROLL - CLERICAL	11,046.40			
701.1100	PAYROLL TAXES	2,856.05			
701.1200	DEPRECIATION	2,872.70			
701.2400	RENTAL OF EQUIPMENT	666.91			
701.2500	SUPPLIES-GENERAL	14.00			
701.2800	MAINTENANCE & REPAIRS	261.18			
701.4000	TRAVEL AND ENTERTAINMENT	22,505.11			
701.5000	TELEPHONE AND TELEGRAPH	1,379.63			
701.9900	MISCELLANEOUS	521.06		109,376.08	
705.0100	PAYROLL - EXECUTIVE	46,304.95			
705.0200	PAYROLL - SUPERVISORY	86,597.03			
705.0900	PAYROLL - CLERICAL	272,094.16			
705.0900	LABOR TEMPORARY	242.75			
705.1100	PAYROLL TAXES	35,529.95			
705.1200	DEPRECIATION AND AMORTIZATION	81,732.54			
705.1700	INSURANCE-OFFICERS LIFE	22,018.56			
705.2400	RENTAL OF EQUIPMENT	18,676.11			
705.2402	RENTAL OF EQUIPMENT EDP	138,327.01			
705.2500	SUPPLIES - GENERAL	7,356.29			

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TRIAL BALANCE
JUNE 30, 1971

ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
705.2500	SUPPLIES EDP	12,569.41			
705.2900	MAINTENANCE AND REPAIR	1,114.41			
705.4000	TRAVEL AND ENTERTAINMENT	12,234.35			
705.6000	PROFESSIONAL SERVICES	97,480.00			
705.6500	TRANSFER FEES	5,103.46			
705.7200	CONTRIBUTIONS	5,245.00			
705.9900	MISCELLANEOUS	18,104.84		820,933.00	
800.0000	OVERHEAD ABSORTION - MFG		2,221,053.51		
800.0001	OVERHEAD ABSORTION - CARS		33,455.90		
800.0006	DEPRECIATION ABSORTION-MFG&CAR		219,024.61		
800.0007	DEPRECIATION ABSORBED-MFG&CARS	219,024.61		219,024.61	2,473,534.02
815.0100	PAYROLL - EXECUTIVE	81,343.64			
815.0200	PAYROLL - SUPERVISORY	85,583.06			
815.0500	PAYROLL - CLERICAL	29,369.59			
815.1100	PAYROLL TAXES	12,837.51			
815.2400	RENTAL OF EQUIPMENT	5,062.78			
815.2500	SUPPLIES - GENERAL	19,048.05			
815.2900	MAINTENANCE AND REPAIRS	553.74			
815.4000	TRAVEL AND ENTERTAINMENT	9,489.69			
815.5000	TELEPHONE AND TELEGRAPH	10,749.51			
815.6000	PROFESSIONAL SERVICES	5,400.00			
815.9900	MISCELLANEOUS	7,416.97		267,874.16	
820.0100	PAYROLL-EXECUTIVE	46,920.15			
820.0200	PAYROLL-SUPERVISORY	71,757.71			
820.0500	PAYROLL- CLERICAL	35,050.00			
820.1000	RENT	17,750.00			
820.1100	PAYROLL TAXES	600.14			
820.1301	WAREHOUSE STORAGE H K	39,100.76			
820.1400	LIGHT HEAT POWER WATER	2,430.00			
820.1600	INSURANCE GENERAL	2,762.57			
820.1700	DEPRECIATION HONG KONG	9,740.00			
820.2500	SUPPLIES GENERAL	6,890.00			
820.2900	MAINTENANCE AND REPAIR	1,150.00			
820.4000	TRAVEL AND ENTERTAINMENT	58,422.30			
820.4300	SAMPLES	5,259.29			
820.4600	POSTAGE	2,000.00			
820.5000	TELEPHONE AND TELEGRAPH	30,376.76			
820.6000	PROFESSIONAL SERVICES	10,536.86			
820.9900	MISCELLANEOUS	41,352.57		332,619.22	
830.0100	PAYROLL - EXECUTIVE	102,647.59			
830.0200	PAYROLL SUPR-FOREMN NIGHT SHFT	958.98			
830.0204	PAYROLL SUPR MATL CONT & WHSE	10,299.00			
830.0205	PAYROLL SUPR INDUS ENGINEERS	27,412.53			
830.0206	PAYROLL SUPR SPECIAL FORMEN	21,218.87			
830.0207	PAYROLL - SUPR. - GEN,L FOREME	77,206.68			
830.0500	PAYROLL - CLERICAL	19,695.14			
830.0700	LABOR-INDIRECT	20,374.11			
830.0702	LABOR-INDIRECT-JIGS & FIXTURES	25,999.03			
830.0703	LABOR-INDIRECT-MAINTNCE DEPT	97,334.85			

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TRIAL BALANCE
JUNE 30, 1971

ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
830.0704	LABOR-INDIRECT-REFURBISHING	13,582.66			
830.0708	LOANS TO/FROM OTHER DEPT		5,076.26		
830.0711	LOANS TO QUALITY CONTROL	2,699.03			
830.0712	LOANS TO CUSTOMER SERVICE	35.28			
830.0714	INDIRECT LABOR NIGHT SHIFT	6,101.45			
830.0717	INDIRECT LABOR OVERTIME PREM	9,121.43			
830.0901	IND. LABOR-TEMPORARY-AGENCY	962.00			
830.1100	PAYROLL TAXES	154,827.50			
830.2200	EMPLOYEE WELFARE PLAN	64,853.00			
830.2400	RENTAL OF EQUIPMENT	7,489.63			
830.2510	SUPPLIES - BULK CORRUGATION		27.15		
830.2511	SUPPLIES - STAPLES	7,653.50			
830.2512	SUPPLIES - PAPER GOODS/BANDS	2,404.18			
830.2513	SUPPLIES - CEMENTS & ADHESIVES	9,218.98			
830.2514	SUPPLIES - PAINTS & LACQUERS	4,549.24			
830.2515	SUPPLIES - MASK WASHER	2,253.15			
830.2516	SUPPLIES - STATIONERY & OFFICE	996.75			
830.2517	SUPPLIES - FACTORY	10,955.18			
830.2801	MAINT TOOLS HAND TOOLS	6,922.22			
830.2802	MAINT TOOLS STOCK SUPPLIES	12,817.14			
830.2803	MAINT TOOLS MCE REPAIRS MAINT	11,048.04			
830.2804	MAINT TOOLS BUILDING SERVICES	28,116.48			
830.2805	MAINT TOOLS JANITOR SUPPLIES	6,105.78			
830.2806	MAINT TOOLS UNIFORMS	1,012.65			
830.2807	MAINT TOOLS SPEC TOOL EQ ALTER	12,384.78			
830.2808	MAINT TOOLS POWER TOOL FITTING	561.70			
830.2900	VACATION PAY	57,054.00			
830.3150	PRODUCTION-HOLIDAY PAY	17,731.08			
830.3400	PRODUCTION-SICK PAY	10,633.92			
830.4000	TRAVEL AND ENTERTAINMENT	13,943.48			
830.5000	TELEPHONE AND TELEGRAPH	320.53			
830.7900	MISCELLANEOUS	5,120.04		885,717.85	5,103.41
835.0100	PAYROLL EXECUTIVE	13,271.24			
835.0200	PAYROLL SUPERVISORY	54,701.00			
835.0203	PAYROLL SUPR RAW MATL WHSE	35,767.40			
835.0900	PAYROLL CLERICAL	9,715.13			
835.0901	PAYROLL CLERICAL RAW MATL WHSE	4,652.69			
835.0700	LABOR INDIRECT	98,890.67			
835.0705	LABOR IND SHPG SR CHECKERS	48,938.77			
835.0706	LABOR IND RAW SR CKRS	15,554.15			
835.0707	LABOR IND RAW MATL	71,887.15			
835.0708	LOANS TO OTHER DEPTS SHP		7,448.67		
835.0709	LOANS TO OTHER DEPTS RR		3,010.73		
835.1000	WAREHOUSE-RENT	9,403.86			
835.1100	PAYROLL TAXES	36,528.43			
835.1300	STORAGE - DEMURRAGE	9,817.29			
835.2200	EMPLOYEE WELFARE PLAN	10,259.00			
835.2400	RENTAL OF EQUIPMENT	41,846.59			
835.2500	SUPPLIES - GENERAL	10,845.11			

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TRIAL BALANCE
JUNE 30, 1971

ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
835.2800	MAINTENANCE AND REPAIR	12,635.57			
835.2900	VACATION PAY	5,634.00			
835.3100	HOLIDAY PAY	4,344.34			
835.3400	SICK PAY	3,575.11			
835.4000	TRAVEL & ENTERTAINMENT	427.63		493,888.00	12,457.43
840.0100	PAYROLL - EXECUTIVE	7,921.81			
840.0200	PAYROLL - SUPERVISORY	35,405.00			
840.0500	PAYROLL - CLERICAL	29,449.76			
840.0700	LABOR-INDIRECT	13,675.14			
840.0703	LOANS TO/FROM OTHER DEPTS.		946.80		
840.0900	LABOR TEMPORARY	203.24			
840.1100	PAYROLL TAXES	8,225.63			
840.2200	EMPLOYEE WELFARE PLAN	469.00			
840.2400	RENTAL OF EQUIPMENT	16,[illegible].12			
840.2500	SUPPLIES - GENERAL	2,572.20			
840.2800	MAINTENANCE AND REPAIR	1,375.19			
840.2900	VACATION PAY	432.00			
840.3100	HOLIDAY PAY	270.00			
840.3400	TRAFFIC-SICK PAY	198.20			
840.4000	TRAVEL AND ENTERTAINMENT	10,427.17			
840.4400	POSTAGE AND MAILING	15,224.79			
840.5000	TELEPHONE AND TELEGRAPH	454.55			
840.6500	PROV FOR UNCOLLECTIBLE CLAIMS	18,040.59			
840.9900	MISCELLANEOUS	1,357.04		159,660.39	946.80
850.0000	MOLDING EXPENSES ABSORPTION		766,799.39		
850.0001	DEPRECIATION ABSORPTION - MOLD		99,071.42		
850.0002	DEPRECIATION ABSORBED - MOLD	99,071.42			
850.0100	PAYROLL - EXECUTIVE	12,023.05			
850.0200	PAYROLL - SUPERVISORY	66,445.18			
850.0500	PAYROLL - CLERICAL	7,402.65			
850.0700	LABOR-INDIRECT	346,920.27			
850.0703	LOANS TO/FROM OTHER DEPTS		2,315.36		
850.1000	RENT	30,000.00			
850.1100	PAYROLL TAXES	58,[illegible].93			
850.1200	DEPRECIATION & AMORTIZATION	83,612.85			
850.1400	LIGHT, HEAT, POWER AND WATER	27,983.03			
850.1600	INSURANCE-GENERAL	30,304.99			
850.2200	EMPLOYEE WELFARE PLAN	18,903.00			
850.2400	RENTAL OF EQUIPMENT	719.68			
850.2401	RENTAL & CLEANING UNIFORMS	1,393.27			
850.2500	SUPPLIES - GENERAL	18,256.32			
850.2508	MOLDING DIV TOOL RM SUPPS	4,105.92			
850.2800	MAINTENANCE AND REPAIR	8,592.85			
850.2803	MAINT-REPAIRS-EQUIP REPAIR	6,289.24			
850.2900	VACATION PAY	13,314.00			
850.3100	MOLDING-HOLIDAY PAY	6,711.63			
850.3400	MOLDING-SICK PAY	4,994.66			
850.4000	TRAVEL AND ENTERTAINMENT	272.11			
850.9900	MISCELLANEOUS	1.78		846,022.83	863,155.17

TRIAL BALANCE
JUNE 30, 1971

ACCOUNT #	DESCRIPTION	DEBIT	CREDIT	DEBIT	CREDIT
870.0100	PAYROLL - EXECUTIVE	34,655.43			
870.0200	PAYROLL - SUPERVISORY	39,913.80			
870.0500	PAYROLL - CLERICAL	24,755.66			
870.0700	INDIRECT LABOR	28,680.35			
870.0701	LABOR-INDIRECT-SECURITY	69,405.23			
870.0750	WAREHOUSE PERSONNEL ON LOAN	15,721.56			
870.0900	OBTAINING EMPLOYEES	24,991.53			
870.0950	LABOR - TEMPORARY	885.35			
870.1000	RENT	344,354.12			
870.1001	BUILDING SERVICES	12,172.49			
870.1100	PAYROLL TAXES	17,259.47			
870.1200	DEPRECIATION & AMORTIZATION	281,213.85			
870.1400	LIGHT, HEAT, POWER AND WATER	67,965.25			
870.1600	INSURANCE-GENERAL	310,592.61			
870.1500	TAXES-REAL & PERSONAL PROPERTY	36,794.59			
870.2200	EMPLOYEE WELFARE PLAN	1,157.00			
870.2400	RENTAL OF EQUIPMENT	1,230.35			
870.2500	SUPPLIES - GENERAL	400.97			
870.2800	MAINTENANCE & REPAIRS	154.65			
870.2900	VACATION PAY	1,242.00			
870.3100	PLANT-HOLIDAY	498.40			
870.3400	PLANT-SICK PAY	322.60			
870.4000	TRAVEL AND ENTERTAINMENT	2,970.37			
870.5000	TELEPHONE AND TELEGRAPH	70,235.71			
870.6000	PROFESSIONAL SERVICES	30.00			
870.9900	MISCELLANEOUS	6,343.62		1,393,948.61	
920.0100	PAYROLL - EXECUTIVE	65,713.55			
920.0200	PAYROLL - SUPERVISORY	38,844.50			
920.0500	PAYROLL - CLERICAL	202,413.39			
920.1100	PAYROLL TAXES	20,234.14			
920.2400	RENTAL OF EQUIPMENT	1,932.64			
920.2500	SUPPLIES - GENERAL	3,703.22			
920.2800	MAINTENANCE AND REPAIRS	417.00			
920.4000	TRAVEL AND ENTERTAINMENT	8,780.15			
920.4300	SAMPLES	9,593.96			
920.6000	PROFESSIONAL SERVICES	3,969.19			
920.6001	PROFESSIONAL SERVICE-PATENTS	15,946.16			
920.9800	SESAME STREET DEFERRED EXP.		90,943.00		
920.9900	MISCELLANEOUS	3,167.12		374,323.68	90,943.00
925.0100	PAYROLL - EXECUTIVE	12,151.95			
925.0200	PAYROLL - SUPERVISORY	84,873.72			
925.0500	PAYROLL-CLERICAL	8,397.03			
925.1100	PAYROLL TAXES	9,745.77			
925.2400	RENTAL OF EQUIPMENT	2,920.10			
925.2500	SUPPLIES - GENERAL	4,226.46			
925.4000	TRAVEL AND ENTERTAINMENT	3,767.75			
925.4300	SAMPLES	23.11			
925.9900	MISCELLANEOUS	5,883.54		131,984.43	
930.0100	PAYROLL EXECUTIVE	27,323.30			

A 3447

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  DATE RUN 08/02/71                    TOPPER  CORPORATION                     TIME 23.42.59          PAGE 33
                                          TRIAL BALANCE
                                          JUNE 30, 1971
  ACCOUNT #          DESCRIPTION                DEBIT           CREDIT                        DEBIT       CREDIT

  930.0200     PAYROLL-SUPERVISORY            11,202.03
  930.0500     PAYROLL-CLERICAL                7,254.70
  930.1100     PAYROLL-TAXES                   1,030.11
  930.2400     RENTAL OF EQUIPMENT               462.15
  930.2500     SUPPLIES-GENERAL                  129.24
  930.4000     TRAVEL AND ENTERTAINMENT        8,094.47
  930.9900     MISCELLANEOUS                   4,726.25                               40,221.30

                      TOTAL              109,427,137.83   109,487,137.83

                      DIFFERENCE                    .00
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A 3448

PX: 1535

A 3449

Topper Corporation executive offices & plant elizabeth, new jersey 07208 tel. 201-351-4400/212-233-4300

Frederick C. Pierce
vice president, sales

October 26, 1971

Mr. Irving Monchik
Shepher Distributors & Sales Corp.
2300 Linden Boulevard
Brooklyn, New York 11208

Dear Irving:

As per our discussions, this letter is to confirm that we will exchange any excess merchandise remaining in your inventory at the end of this year on a dollar for dollar basis for any merchandise in our 1972 line.

We also assure you that the merchandise in our 1972 line will be advertised on television and supported as we have supported it in the past.

Sincerely,

Fred C. Pierce

FCP:cm

A 3450

PX 1343

1970 Catalogue Book

1970 Bo

PENSICK & GORDON, INC.

INTER-OFFICE CORRESPONDENCE

March 9, 1970

To: Topper File

cc: Larry Jaffee

From: L. S. Ades

Subject: Topper 1970 (Fiscal 1971)....January 31, 1971 Plan

On March 3rd, approximately 12:30 P.M., in the office of Henry Orenstein, Topper Showroom, 1107 Broadway, New York City, a meeting was held with the following people:

Henry Orenstein
L. S. Ades
Fred Pierce
Alex Hughes
Morris Orenstein
Jerry Gross

At that time, an agreement was reached with the above-mentioned witnesses continuing for the current year the arrangement which existed between Topper and Pensick & Gordon for 1969 as outlined in the attached memo of November 17, 1969.

LSA:bjn

1343.

A 3451 November 17, 1969

1970 Book

PENSICK & GORDON, INC.

INTEROFFICE CORRESPONDENCE

To: L. Jaffee From: L. S. Ades

Subject: Topper Year-End Plan 1969-70, As Per Discussions
With J. Gross and H. Orenstein, Week of November 10th.

1) Of our closing inventory, Topper is to re-date to October 10, 1970 all merchandise
in excess of $100,000.00. We estimate, based on our January, 1969 performance
a return from retail customers, i.e., White Front, of approximately $60,000.00
The $60,000.00 plus the inventory in excess of $100,000.00 will be deducted from
my January 10th remittance. On February 10, 1970, we will reconcile the customer
returns, forwarding to Topper a summary thereof, and remitting any differential
between the $60,000.00 estimated and a lesser amount of returns, if such be the
case. The inventory adjustment will be deducted net on January 10th and reimbursed
net on February 10th and October 10th as applicable.

2) Topper has guaranteed that Pensick & Gordon will take no markdowns on the above
mentioned inventory, i.e., if items become distress or not salable at the regular
price, Topper will credit Pensick & Gordon down to a price that will enable the
merchandise to be moved.

3) Pensick & Gordon, as of November 15, 1969 is buying Topper merchandise at a
discount of 4%-4% (plus 2% advertising allowance). In the event that any of
the merchandise purchased by Pensick & Gordon under these discount terms can
be bought more favorably (disregarding dating) at any time in December of 1969
or the year 1970 to the extent that this merchandise is in inventory, Topper
will adjust Pensick & Gordon's cost to the more favorable price. This will be
done on an item by item basis, considering only those items that go down in net
cost and allowing Pensick & Gordon the benefit of any items that may have gone
up in net cost.

4) In the event there are one or more items in the final inventory of extremely
large quantity or bulk, Topper agrees upon request from Pensick & Gordon to
physically remove all or a portion of said merchandise.

Mch 27 1970 [illegible]

LSA:bjn

A 3452

-1970 Bo

Topper Corporation executive offices & plant elizabeth, new jersey 07206 tel. 201-331-4400/212-233-

Frederick C. Pierce
vice president, sales

file
1970 Bo

March 4, 1971

Mr. Lawrence S. Ades, President
Pensick & Gordon, Incorporated
6501 Flotilla Avenue
Los Angeles, California

Dear Mr. Ades:

As of January 10, 1971, Pensick & Gordon, Incorporated has a Topper inventory of approximately $444,000.00, a portion of which was caused by over-shipments. In view of this, Topper will redate $334,000.00 and Pensick & Gordon will not be obligated to pay for this merchandise until such time that disposition is made at no financial loss to Pensick & Gordon.

In consideration of Pensick & Gordon, Incorporated's Toy Fair Order, Topper is granting a special Toy Fair Advertising Allowance of $149,300.00. Topper also agrees that they will redate any inventory existing on December 31, 1971, in excess of 10% of Pensick & Gordon net 1971 purchases. Pensick & Gordon will not be obligated to pay any such excess until such time as the merchandise is disposed of at no financial loss to Pensick & Gordon. (iv)

This agreement shall be binding upon Topper Corporation and/or any successors thereto including, in the event of a bankruptcy, the receivorship.

Sincerely yours,

Fred C. Pierce

FCP:es

1346

PX1569

A 3453

PURCHASE AGREEMENT

TOPPER CORPORATION

7½% CONVERTIBLE SUBORDINATED NOTES DUE SEPTEMBER 30, 1986

September 28, 1971

Morgan Guaranty Trust Company of New York
As Agent for an Institutional Investor
[Schmidt & Co. Account No. 288]
P. O. Box 1479, Church Street Station
New York, New York 10008

Dear Sirs:

Topper Corporation (herein called the "Company"), a Delaware corporation, agrees with you as follows:

1. **Authorization of Notes.** The Company has authorized the issue of its 7½% Convertible Subordinated Notes due September 30, 1986, in an aggregate principal amount of $5,250,000, to be dated the closing date hereunder and to be substantially in the form of Exhibit A hereto (herein, together with any notes which may be issued in substitution therefor or replacement thereof, called the "Notes").

2. **Sale and Purchase of Notes.** The Company will sell to you, and, subject to the terms and conditions hereof and in reliance upon the representations and warranties of the Company contained herein, you will purchase from the Company, Notes in the principal amount set opposite your name in Exhibit B hereto, at an aggregate purchase price of 100% of the principal amount of the Notes so purchased.

3. **Closing.** The closing hereunder shall take place at the offices of Messrs. White & Case, 14 Wall Street, New York, New York, at 10:30 a.m. (New York time) on September 28, 1971 and the Company will deliver to you thereat the Notes purchased by you in the form of single Note payable to your order (or to the order of any nominee specified by notice to the Company given by you or your special counsel at least two business days prior to such closing) against payment of the full purchase price of the Notes to be purchased by you in New York Clearing House funds.

4. **Definitions.** As used herein, the following terms have the following respective meanings:

4.1. "*Consolidated*", used with reference to Current Assets, Current Liabilities, Funded Debt, Net Tangible Assets and Tangible Net Worth means such respective items of the Company and its Subsidiaries, consolidated in accordance with generally accepted accounting principles *provided* that (*a*) appropriate deductions shall be made for minority interests in Subsidiaries in determining Consolidated Net Earnings, Consolidated Net Tangible Assets and Consolidated Tangible Net Worth, and (*b*) in determining Consolidated Current Assets and Consolidated Current Liabilities there shall be deducted from the Current Assets and Current Liabilities of each Subsidiary amounts thereof equal to the percentage of such Current Assets and Current Liabilities, respectively, which is represented by the percentage of the minority interests, if any, in such Subsidiary.

4.2. *"Current Assets"* means (*i*) cash and cash items in United States currency (or in foreign currency converted at the appropriate exchange rate), (*ii*) accounts receivable payable on demand or within one year, less reserves determined to be sufficient in accordance with generally accepted accounting principles, (*iii*) inventories taken at cost or market, whichever is lower, and (*iv*) such other assets as may properly be classified as current assets in accordance with generally accepted accounting principles.

4.3. *"Current Liabilities"* means all Indebtedness maturing on demand or within one year from the date as of which Current Liabilities are to be determined and not renewable or extendible by the terms thereof at the option of the debtor to a date beyond such year (including, without limitation, amounts payable within such year in respect of the Notes and any other Indebtedness) and such other liabilities as may be properly classified as current liabilities in accordance with generally accepted accounting principles.

4.4. *"Funded Debt"* of any corporation means all Indebtedness of such corporation maturing more than twelve months from the date of determination thereof or directly or indirectly renewable or extendible beyond such twelve months, at the option of the debtor, by its terms or by the terms of any instrument or agreement relating thereto, and all Indebtedness of such corporation incurred under a revolving credit or similar agreement extending for more than twelve months. Each Lease Equivalent to Purchase of a Company or Subsidiary shall constitute Funded Debt of the Company or Subsidiary, as the case may be, (*a*) in an amount equal to the aggregate of all rentals remaining payable thereunder over the term of such lease (other than payments for taxes, insurance, utilities and like items of additional rent and other than rentals payable in less than twelve months from the date of determination) discounted to the date of determination on the basis of the interest factor used in the original calculation of the amount of such rentals, and (*b*) bearing interest at the rate of such interest factor.

4.5. *"Indebtedness"* of any corporation means (*a*) all indebtedness, obligations and liabilities, which in accordance with generally accepted accounting principles would be classified in the accounts of such corporation as a liability, (*b*) all indebtedness, obligations and liabilities secured by any mortgage, pledge or lien existing on property owned subject to such mortgage, pledge or lien whether or not such indebtedness, obligations or liabilities have been assumed, (*c*) all Leases Equivalent to Purchase in an aggregate amount determined in accordance with clause (*a*) of subsection 4.4 but without regard to the exclusion therein provided for rentals payable in less than twelve months, and (*d*) all guaranties (whether by discount or otherwise), endorsements (other than for collection or deposit in the ordinary course of business) and other contingent obligations in respect of, or to purchase or otherwise acquire or became liable upon or to supply or advance funds on account of, Indebtedness of others determined in accordance with the foregoing definition. The amount of any such contingent obligation shall be considered Indebtedness of the contingent obligor equal to the full amount contingently payable by such contingent obligor.

4.6. *"Lease Equivalent to Purchase"* means any lease to which the Company or any Subsidiary is a party as lessee and which (*a*) constitutes the substantial equivalent of a purchase of the property subject to such lease, or (*b*) has an initial term materially less than the useful life of such property and provides that the lessee has the option to renew such lease for the remaining useful life of such property at a rental which at the inception of such lease appears to be substantially less than the fair rental value of such property, or (*c*) provides an option to the lessee to acquire the property subject to such lease at a price which, at the inception of such lease, appears to be substantially less than the probable fair value of such property at the time or times of permitted acquisition by the lessee.

4.7. *"Long-Term Lease"* means any lease of real property or equipment (other than a Lease Equivalent to Purchase and a lease between a Subsidiary and another Subsidiary or the Company) to which the Company or any Subsidiary is a party as lessee, having an initial term (including any provision for renewal at the option or otherwise at the right of the lessor) of three years or longer. *"Rentals"* means all rentals under Long Term Leases other than payments for taxes, insurance, utilities and like items of additional rent.

4.8. *"Market Price"* of Common Stock shall mean: (*a*) in the event that the Common Stock shall be listed on any national securities exchange, the average closing sale price of such Common Stock on the principal national securities exchange on which it is listed for the ten business days prior to the day on which such market price is to be determined, or (*b*) in the event that the Common Stock shall not be listed on any national securities exchange, the average of the high bid and low asked prices of such Common Stock in the over the counter market (*i*) for the ten business days prior to the day on which such market price is to be determined, as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding to its functions in reporting such prices satisfactory to the holders of the Notes) or (*ii*) if no such prices were reported, on the most recent date prior to such day as of which such prices were so reported

4.9. *"Net Earnings"* of any corporation as applied for any period means the net income (or net deficit, as the case may be) after taxes on income of such corporation for such period, determined in accordance with generally accepted accounting principles, *provided* that net gains or losses in such period from the write-up or write-down of capital assets or on the sale or other disposition, not in the ordinary course of business, of capital assets or on the acquisition or retirement or sale of stock or securities of such corporation shall be excluded.

4.10. *"Net Tangible Assets"* of any corporation means the excess of the book amount of all assets of such corporation other than

(*a*) write-ups subsequent to January 1, 1971 of assets above cost,

(*b*) intangible assets such as good will, trade marks and the excess of cost of business purchased over the net book value of the underlying assets thereof,

(*c*) deferred charges of such corporation, and

(*d*) Restricted Investments

over

all Indebtedness thereof, other than Funded Debt, and all reserves appearing on the liability side of the balance sheet thereof except reserves which in effect are appropriations of earned surplus,

all determined in accordance with generally accepted accounting principles, provided that for such purpose the Company or any Subsidiary having a Lease Equivalent to Purchase shall be deemed to have an asset equal to the amount of Funded Debt represented by such Lease Equivalent to Purchase.

4.11. *"Restricted Investment"* means any direct or indirect investment in stock (including capital contributions) or other securities, any direct or indirect loan or advance, and any other direct or indirect investment, *provided* that such term shall not include the investments permitted by clauses (*a*) through (*c*) of section 20 hereof. The aggregate amount of Restricted Investments at any time outstanding means, without duplication (*i*) the aggregate cost of all such Restricted Investments owned by the Company and its Subsidiaries at the date of determination, plus (*ii*) the amount, if any, by which (*aa*) any losses to the Company and its Subsidiaries resulting from write-downs, write-offs, or liquidations of any such Restricted Investments during the period from the date hereof to the date of determination exceeds (*bb*) any profits to the Company and its Subsidiaries resulting from liquidations of such Restricted Investments during such period.

4.12. *"Subsidiary"* means any corporation of which at least a majority of the voting stock is at the time owned by the Company and/or by one or more Subsidiaries. For the purpose of such definition "voting stock" means capital stock the holders of which are ordinarily and generally, in the absence of contingencies, entitled to vote for a majority of the directors or persons performing similar functions. Notwithstanding the foregoing (*a*) neither De Luxe Toy Company Limited, De Luxe Toy (Nederland) N.V., nor De Luxe Topper Canada Limited, referred to in subsection 5.1, shall constitute a Subsidiary unless and until the particular corporation becomes active or additional investments of any character aggregating at least $50,000 are made therein by the Company and/or Subsidiaries, and (*b*) Topper Toys (Hong Kong) Limited, also referred to in subsection 5.1 shall not constitute a Subsidiary unless and until (*i*) additional investments aggregating at least $250,000 are made therein by the Company and/or Subsidiaries, or (*ii*) the Company shall elect by written notice to the holders of the Notes to declare such corporation a Subsidiary, from and after the date of which notice such corporation shall constitute a Subsidiary for all purposes of this Agreement.

4.13. *"Tangible Net Worth"* of any corporation means its Net Tangible Assets plus the amount of its Funded Debt at the time outstanding.

5. REPRESENTATIONS AND WARRANTIES BY THE COMPANY. The Company represents and warrants that:

5.1. *Organization and Existence, etc.* The Company is a corporation duly organized and validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own its property and to carry on its business as now being conducted, to enter into this Agreement, to issue the Notes as contemplated herein and to carry out the provisions and conditions of this Agreement and of the Notes. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the character of the properties owned and the nature of the activities conducted by it therein make such qualification necessary. Each Subsidiary of the Company is a corporation duly organized and validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own its property and to carry on its business as now conducted and is duly qualified as a foreign corporation and is in good standing in every jurisdiction in which the character of the properties owned and the nature of the activities conducted by it therein make such qualification necessary. All of the outstanding shares of capital stock of each Subsidiary are validly issued and outstanding, fully paid and non-assessable and (except for directors' qualifying shares, to all of which the Company has the beneficial ownership) are held by the Company. De Luxe Toy Company Limited (a United Kingdom corporation) De Luxe Toy (Nederland) N.V. (a Dutch corporation) and De Luxe Topper Canada Limited (an Ontario corporation), each of which are excluded from the definition of Subsidiary by the last sentence of subsection 4.12 hereof, are dormant and none of such corporations has more than a nominal amount of assets. Topper Toys (Hong Kong) Limited (a Hong Kong corporation), similarly excluded from the definition of Subsidiary although the company holds all the capital stock thereof (except for directors' qualifying shares which are beneficially owned by the Company), serves as a purchasing agent and shipment expediter for the Company and its gross assets amount to approximately $100,000.

5.2. *Financial Statements, etc.* The Company has furnished you with a copy of its Registration Statement on Form S-1 under the Securities Act of 1933, effective April 29, 1971. Such Registration Statement did not, at the effective date thereof, include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The Company has furnished you with (*a*) a consolidated balance sheet of the Company and its Subsidiaries, as at December 31, 1970, and a consolidated statement of operations for the fiscal year then ended, certified by Arthur Young & Company, and (*b*) an unaudited consolidated balance sheet of the Company and its Subsidiaries as at June 30, 1971 and a consolidated statement of operations thereof for the six months period then ended. Such financial statements are true and correct and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved. Such balance sheets fairly present the condition of the Company and its Subsidiaries as at the respective dates thereof, and such consolidated statements of operations fairly present the results of operations of the Company and its Subsidiaries for the periods indicated. No dividends or other distributions have been declared or paid on the capital stock of the Company since June 30, 1971. There has been no change in the business or condition (financial or otherwise) of the Company or its Subsidiaries since June 30, 1971 other than as set forth in clause (*c*) of subsection 5.3 hereof and other than changes in the ordinary course of business, none of which, individually or in the aggregate, has been materially adverse.

5.3. *Capitalization; Indebtedness; etc.* (*a*) The authorized capital stock of the Company consists of 30,000 shares of 5% Cumulative Preferred Stock, par value $100 per share, and 5,000,000 shares of Common Stock, par value $1, per share. The Company's issued capital stock as of June 30, 1971 consisted of 30,000 shares of the 5% Cumulative Preferred Stock, including 10,518 shares held in the treasury, and 3,777,420 shares of the Common Stock, including 50,000 shares held in the treasury. All of the Company's issued capital stock has been duly and validly issued and is fully paid and non-assessable.

(*b*) There are outstanding stock options to purchase not exceeding 170,000 shares of Common Stock granted pursuant to the Company's 1966 and 1969 Qualified Stock Option Plans, as amended. There are outstanding no other options or other rights to subscribe for or acquire capital stock of the Company. The Company has no obligation for the repurchase of any of its Common Stock.

(*c*) No Funded Debt has been incurred by the Company or any Subsidiary since June 30, 1971 except a term loan of $7,000,000 maturing December 31, 1976 from Ford Motor Credit Company made on September 17, 1971.

5.4 *Compliance with Instruments, etc.* Neither the Company nor any Subsidiary is (*a*) in default under any indenture or material contract or agreement to which it is a party, (*b*) in violation of its charter or by laws or substantial violation of any applicable law, (*c*) in default with respect to any order, writ, injunction or decree of any court, or (*d*) in default under any order, license, regulation or demand of any Federal, state, municipal or other governmental agency, which default or violation in any of the aforesaid cases might have consequences which would materially and adversely affect its respective business or property. There exists no condition, event or act which would constitute upon the happening thereof, or after notice or lapse of time, or both, an Event of Default if the Notes were outstanding on the date hereof.

5.5. *No Materially Adverse Contracts, etc.* Neither the Company nor any Subsidiary is obligated under any contract or agreement or subject to any charter or other corporate restriction which materially and adversely affects its respective business, properties or assets, or financial condition. Neither the execution nor delivery of this Agreement, nor the consummation of the transactions contemplated hereby, nor the fulfillment of the terms hereof, nor compliance with the terms and provisions hereof or of the Notes, will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, the charter or by-laws of the Company or any Subsidiary or of any agreement or instrument under which the Company or any Subsidiary is obligated. The copies which the Company has furnished to you of the Company's charter, by-laws, and loan agreements are complete and accurate and include all amendments thereto.

5.6 *Business.* The Company and each Subsidiary has all necessary franchises, permits, licenses and other rights and privileges to allow them to own their property and to conduct the business in which they are now engaged without any violation of the rights of others and they are duly authorized, qualified and licensed and in good standing under all laws, regulations, authorization or orders of public authorities

to the extent necessary to the ownership of their property and the carrying on of their business in the places and in the manner presently conducted.

5.7. *Tax Returns and Liabilities.* The Company and each Subsidiary have filed all tax returns which are required to be filed and have paid all taxes as shown on such returns and on all assessments received by them to the extent that such taxes have become due. All Federal income taxes of the Company and its Subsidiaries have been paid or adequate accruals have been set up to cover any such unpaid taxes.

5.8. *Title to Property.* All leases to which the Company or any Subsidiary is a party are in full force and effect, no material default on the part of the Company or any Subsidiary exists thereunder, and the Company and each Subsidiary enjoy peaceful and undisturbed possession of such leaseholds. Except as to property held under lease, the Company and each Subsidiary have good and marketable title in fee to such of their assets as constitute real property and good and merchantable title to all other assets now carried on their books, whether reflected in the aforesaid consolidated balance sheets as at June 30, 1971, or entered on their books as having been acquired since such date, subject to no liens, charges or encumbrances or security titles or interests of any kind except as would be permitted by section 15 hereof.

5.9. *Litigation, etc.* There is no action, suit or proceeding pending or, to the knowledge of the Company's officers, threatened against or affecting the Company or any Subsidiary before any court or administrative agency which might result in any material adverse change in the business or condition (financial or other) of the Company or such Subsidiary or which questions the validity of any action taken or to be taken pursuant to or in connection with this Agreement.

5.10. *Foreign Investments.* The Company is a "United States person" and will not apply the proceeds of the Notes (*i*) to the "acquisition" of "stock" of a "foreign issuer" or "debt obligation" of a "foreign obligor" as such terms are defined in the United States Interest Equalization Tax Act, as extended and amended, or (*ii*) to the making of any foreign direct investment contrary to Executive Order 11387 of the President of the United States and the Foreign Direct Investment Regulations promulgated by the Secretary of Commerce (15 CFR Part 1000).

5.11. *Regulation G.* Neither the Company nor any Subsidiary owns any "registered equity security" or any "regulated equity security" within the meaning of Regulation G (12 CFR Part 207) of the Board of Governors of the Federal Reserve System (both herein called a "regulated equity security"). The proceeds of sale of the Notes to you will be used primarily for additional working capital, and none of such proceeds will be used for the purpose of purchasing or carrying any regulated equity security or for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry a regulated equity security or for any other purpose not permitted by said Regulation G.

5.12. *Offering of Notes.* Neither the Company nor any agent acting on its behalf has offered the Notes, or any similar security of the Company, for sale to, or solicited any offers to buy the same from, any person except you, the other purchasers listed in Exhibit B hereto and not more than 30 other institutions; and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act of 1933 as now in force.

6. PURCHASE FOR INVESTMENT. You represent that the Notes covered by this Agreement are being acquired for investment and not with a view to, or for sale in connection with, any distribution of such Notes or of any shares of Common Stock received upon the conversion of such Notes nor with any present intention of distributing or selling the Notes, or such shares of Common Stock, *provided* that, subject to the provisions of this Agreement, the disposition of your property shall always be and remain within your control.

7. CONDITIONS OF PURCHASER'S OBLIGATION. Your obligation to purchase and pay for the Notes to be delivered to you at the closing hereunder is subject to the accuracy of all representations and warranties by the Company contained herein or otherwise made by the Company in writing in connection with the transactions contemplated hereby and to the satisfaction of the following conditions:

7.1. *Opinion of Counsel.* You shall have received from Messrs. White & Case who are acting as counsel for the Company as well as special counsel for you in this transaction, a favorable opinion dated the closing date, in form and substance satisfactory to you, as to: (*a*) the due organization and existence of the Company and each Subsidiary; (*b*) the corporate power of the Company and each Subsidiary to own their property and to carry on their business as now being conducted; (*c*) the due qualification of the Company and each Subsidiary as a foreign corporation to transact business and their good standing in each jurisdiction where the Company or such Subsidiary has any ownership or leasehold interest in real property; (*d*) the due authorization (including any consent of stockholders required by law or by the charter or by-laws of the Company, or otherwise), execution and delivery by the Company, and the validity and binding effect as obligations of the Company, of this Agreement and the Notes then being delivered; (*e*) the due authorization and reservation for issuance of the shares of Common Stock initially issuable upon conversion of such Notes, and the validity, full payment and non-assessability, when issued pursuant to the terms of such Notes, of shares of Common Stock of the Company to be issued upon converison of such Notes; (*f*) the execution and delivery of this Agreement and the issue and sale of the Notes not conflicting with or resulting in any violation of or default under the charter or by-laws of the Company or of any agreement or instrument known to such counsel to which the Company is subject; (*g*) the authorized capital stock of the Company, including the due and valid issuance, full payment and non-assessability of all issued capital stock; (*h*) the exemption of the sale and delivery of the Notes then being issued to you under the Securities Act of 1933, as amended; (*i*) the absence of any requirement in connection with the sale and delivery of such Notes for the qualification of this Agreement or any indenture in respect of such Notes under the Trust Indenture Act of 1939, as amended; (*j*) the absence of any requirement of authorization or other action by any governmental or regulatory body for the authorization, issuance and sale of the Notes being issued to you; and (*k*) such other matters incident to the matters herein contemplated as you may reasonably request, including the form of all papers and the validity of all proceedings.

7.2. *Representations and Warranties; No Event of Default.* The representations and warranties contained in section 5 hereof shall be true at and as of such closing (except to the extent that the facts upon which such representations are based may have been changed by the transactions contemplated by this Agreement) with the same effect as though such representations and warranties had been made at and as of such time; there shall exist at such time no condition, event or act which constitutes an Event of Default or which, with notice or lapse of time, or both, would constitute such an Event of Default; and the Company shall have delivered to you its certificate dated the closing date and signed on its behalf by its President, a Vice President or its Treasurer to the foregoing effect.

7.3. *Tax Certificate.* The Company shall have delivered to you a certificate of Arthur Young & Company stating that in the opinion of such firm the consolidated balance sheet of the Company and its Subsidiaries as at December 31, 1970, contained adequate reserves for all unpaid Federal income taxes.

7.4. *Proceedings.* All corporate and other proceedings to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to you and your special counsel, and you and your special counsel shall have received all such counterpart originals or certified or other copies of such documents as you or they may reasonably request.

7.5. *Sale of Notes.* The total aggregate principal amount of Notes to be delivered to the other Purchasers shall be delivered to, and paid for by, the other Purchasers.

8. FURNISHING OF FINANCIAL DATA AND CERTIFICATES. The Company will deliver (*x*) to you so long as you shall hold any of the Notes, (*y*) to any assignee of your entire interest in the Notes so long as such assignee holds any thereof, and (*z*) to each holder of 10% or more in principal amount of the Notes at any time outstanding:

(*a*) As soon as practicable, and in any event within 45 days, after the close of each of the first three quarters of each fiscal year of the Company, (*i*) a balance sheet of the Company and a consolidated balance sheet of the Company and its Subsidiaries as of the end of such quarter, and (*ii*) a statement of operations of the Company and a consolidated statement of operations of the Company and its Subsidiaries for the portion of such fiscal year preceding the end of such quarter, each of the foregoing to set forth in comparative form the corresponding figures as of one year prior thereto and to be in reasonable detail and certified (subject to year-end adjustments) by a principal accounting officer of the Company;

(*b*) As soon as practicable, and in any event within 120 days, after the close of each fiscal year of the Company, (*i*) a balance sheet of the Company and consolidating and consolidated balance sheets of the Company and its Subsidiaries as of the end of such fiscal year, and (*ii*) a statement of operations of the Company and consolidating and consolidated statements of operations of the Company and its Subsidiaries for such fiscal year, each of the foregoing to set forth in comparative form the corresponding figures for the Company and the corresponding consolidated figures from the previous year (except that no consolidating figures for 1970 need be furnished) and certified by independent public accountants.

(*c*) Promptly upon receipt thereof, a copy of each report submitted to the Company or any Subsidiary thereof by independent public accountants in connection with each annual audit of its books by such accountants or in connection with interim audits thereof pertaining to any phase of its business which is of material significance to its financial condition;

(*d*) Copies of all such financial statements and reports as the Company shall send to its stockholders and of all regular or periodic reports and registration statements (in the form declared effective) filed by it with the Securities and Exchange Commission or any governmental department, bureau, commission or agency succeeding to the functions of the Securities and Exchange Commission and copies of all original or supplemental listing applications as finally filed with any national securities exchange on which the Company's Common Stock is then or to be listed; and

(*e*) Such other financial data as may be reasonably requested by any person entitled to receive the foregoing.

Each delivery of financial statements required by subdivisions (*a*) and (*b*) above shall be accompanied by a certificate of a principal accounting officer of the Company stating that to the best of his knowledge there exists no condition, event or act which constitutes an Event of Default or which, with notice or lapse of time, or both, would constitute an Event of Default, or, if any such condition, event or act exists, specifying the nature thereof, the period of existence thereof and what action the Company proposes to take with respect thereto; and such certificate accompanying the financial statements required by such subdivision (*b*) shall contain calculations in reasonable detail (classified in accordance with applicable definitions herein) showing at such date the status of the ratios and tests set forth in subclause (*i*) of clause (*c*) of subsection 14.1, and sections 18 and 19 hereof. Each certificate of independent public accountants delivered with the financial statements required by subdivision (*b*) above shall be accompanied by a written statement of such accountants that, in making the audit necessary to the giving of such certificate, they have obtained no knowledge of the existence during the fiscal period under audit of any condition, event or act which constitutes an Event of Default or which, with notice or lapse of time, or both, would constitute such an Event of Default, or, if in the opinion of such accountants there shall exist any such condition, event or act, such statement shall specify the nature thereof. You and each other person entitled to receive the foregoing are hereby authorized to deliver a copy of any financial statement or report delivered under this section 8 to any regulatory body having jurisdiction over you or such other person.

9. INSPECTION. So long as you shall hold any of the Notes, the Company will permit any person designated by you in writing, at your expense, to visit and inspect any of the properties of the Company or any of its Subsidiaries, including their respective books of account, and to discuss their respective affairs, finances and accounts with their respective officers, all at such reasonable times and as often as you may reasonably request. The Company will extend like rights to any then holder (other than a holder whose business is competitive with that of the Company or any Subsidiary) of Notes constituting either an assignee of your entire interest in the Notes or a holder of 10% or more in principal amount of the Notes then outstanding, all at the expense of such holder.

10. EXCHANGE OF NOTES.

10.1. *New Notes.* Subject to section 24, the Company will at any time, at its expense, at the request of the holder of any Note, and upon surrender of such Note for such purpose, issue new Notes in exchange therefor, payable to the order of the holder or such person or persons as may be designated by such holder, dated the date to which interest has been paid on the surrendered Note, in denominations of $1,000 or any multiple thereof, in an aggregate principal amount equal to the unpaid principal amount of such Note and substantially in the form of such Note with appropriate variations.

10.2. *Replacement of Notes.* Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of any note and, in the case of any such loss, theft or destruction, upon delivery of a bond of indemnity satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of such Note, the Company will issue a new Note, of like tenor, in lieu of such lost, stolen, destroyed or mutilated Note.

11. PREPAYMENTS.

11.1. *Fixed Prepayments.* On September 30, 1977 and on September 30, in each year thereafter to and including September 30, 1986, or until the Notes shall be paid in full, the Company will apply to the prepayment of the Notes, at the principal amount thereof, the sum of $525,000, and such principal amounts of the Notes, together with interest thereon to the dates of prepayment, shall become due and payable on such prepayment dates. The Company may receive a credit in respect of any such prepayment equal to the principal amount of any Notes prepaid more than 30 days prior to the particular September 30, pursuant to subsection 11.2 or 11.3 hereof (and not previously credited under this subsection 11.1) or converted more than 30 days prior to the particular September 30 pursuant to section 13 hereof (and not previously so credited) except for conversions under the circumstances referred to in the next succeeding sentence, *provided* that at least thirty days prior to the particular September 30, the Company shall furnish to the holders of the Notes a certificate stating that the Company has elected to take such credit, containing a calculation showing in reasonable detail the basis therefor and the principal amount of the Notes, if any, to be prepaid after giving effect to the credit in question. The Company's obligation with respect to any particular such prepayment shall be reduced to the extent that, prior to the close of business on the day prior to the applicable prepayment date, the particular prepayment date, any holder shall surrender a Note to the Company in the manner provided in subsection 13.1 hereof and request in writing that the portion of such Note to be prepaid under this section 11.1 be converted into Common Stock. Subject to the provisions of the preceding sentence, no prepayment under subsection 11.2 or 11.3 hereof and no conversion of the Notes shall affect the Company's obligation to make prepayments under this subsection 11.1 unless all of the outstanding Notes shall thereby be paid in full.

11.2. *Optional Prepayment without Premium.* On September 30, 1982 and on each September 30 thereafter the Company may at its option apply to the prepayment of the Notes, at the principal amount thereof, a sum (in multiples of $1,000) not exceeding $1,050,000 on any one such date, such option to be non-cumulative.

11.3. *Optional Prepayment with Premium.* The Notes shall be subject to prepayment as a whole at any time on or after September 30, 1973 or from time to time on or after such date in part (in multiples of $1,000), at the option of the Company, at the following applicable percentage of the principal amount so prepaid:

If prepaid during the 12 months beginning September 30,

Year	Percentage	Year	Percentage
1973	106.5%	1980	103.0%
1974	106.0%	1981	102.5%
1975	105.5%	1982	102.0%
1976	105.0%	1983	101.5%
1977	104.5%	1984	101.0%
1978	104.0%	1985	100.5%
1979	103.5%	thereafter	100%

provided that the Company may not make any prepayment of the Notes pursuant to this subsection 11.3 prior to September 30, 1974 unless during the 60 business days immediately preceding the notice of such prepayment there shall have been maintained for a period of at least 30 consecutive business days a current market price of the Common Stock equal to or exceeding 175% of the conversion price (as defined in subsection 13.3 hereof) then in effect, nor prior to September 30, 1976, unless during the 60 business days immediately preceding the notice of such prepayment there shall have been maintained for a period of at least 30 consecutive business days a current market price of the Common Stock equal to or exceeding 150% of the conversion price (as defined in subsection 13.3 hereof) then in effect. For such purpose the daily market price shall be the closing sale price of the Common Stock on the principal national securities exchange on which the Common Stock is then listed, or in the event that the Common Stock shall not be listed on any national securities exchange, the average of the high bid and the low asked prices of the Common Stock in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding to its functions in reporting such prices satisfactory to the holders of the Notes) *provided* that if for any day there is no such sale price or no such reported prices, as the case may be, the market price for such day shall be that for the most recent date prior to such day for which there shall have been such sale price or reported prices.

11.4. *Optional Prepayment upon Proposed Merger, etc.* In the event that the Company shall propose to effect a transfer of all or substantially all of its assets or a merger or consolidation which transfer, merger or consolidation would be prohibited by section 22 hereof solely by reason of non-fulfillment of clause (*ii*) thereof and if within twenty days after the Company shall have given to the holders of the Notes written notice of such proposed transaction requesting consents thereto on the part of the holders of the Notes, the requisite consents shall not have been furnished under section 25 hereof, the Notes shall be subject to prepayment as a whole at the principal amount thereof, *provided* that the notice of such prepayment pursuant to subsection 11.5 hereof shall be conditional upon the fulfillment of such transaction and may be given not less than 20 days prior to the date fixed for prepayment.

11.5. *Notice.* Any call for prepayment of the Notes pursuant to subsection 11.2, 11.3 or 11.4 hereof shall be made by giving written notice to the holders of the Notes to be prepaid not less than 30 (20 in the case of subsection 11.4) days nor more than 60 days prior to the date for prepayment. Notice of call for prepayment having been given as aforesaid, the principal amount to be prepaid, together with interest thereon to the date of prepayment, and together with any applicable premium thereon, shall on the date designated in such notice become due and payable. From and after such date, unless the Company shall default in payment of such principal amount when so due and payable and interest as aforesaid, interest on such principal amount shall cease to accrue.

11.6. *Allocation of Payments.* In the case of all prepayments of less than all of the Notes at the time outstanding, the principal amount to be prepaid shall be allocated (in units of $1,000 or multiples thereof) among the holders of all Notes at the time outstanding, in proportion, as nearly as practicable, to the respective aggregate unpaid principal amounts of the Notes (not theretofore called for prepayment) then held by each, respectively, with adjustments, to the extent practicable, to equalize for any prior unequal prepayments.

11.7. *Notation of Payment, etc.* Except as otherwise provided in section 28 hereof, upon any partial prepayment of any Note, such Note shall be, at the option of the holder thereof, either (*a*) surrendered to the Company in exchange for a new Note in a principal amount equal to the principal amount remaining unpaid on the Note surrendered, and otherwise having the same terms and provisions as the Note surrendered, or (*b*) made available to the Company at the place of payment for notation thereon of the portion of the principal so prepaid.

11.8. *No Reissue of Prepaid or Converted Notes.* In case of the prepayment of any principal amount of any Note or the conversion of any principal amount thereof pursuant to section 13 hereof, no Notes shall be reissued evidencing such prepaid or converted principal amount.

12. SUBORDINATION TO SENIOR DEBT. Anything herein or in any Note to the contrary notwithstanding, the Indebtedness evidenced by the Notes shall be subordinate and junior to the extent set forth in the following paragraphs (*a*) to (*c*), inclusive, to all Indebtedness of the Company for borrowed money not prohibited by section 14 hereof (except for any Indebtedness which, in the instrument evidencing the same or the agreement relating thereto, is expressly deemed not to constitute Senior Debt for purposes of the Notes) whether presently outstanding or created or incurred concurrently with or after the date hereof but prior to the maturity of the Notes by lapse of time, acceleration or otherwise. Such indebtedness of the Company to which the Notes are subordinate or junior is sometimes herein referred to as "Senior Debt".

(*a*) In either of the following cases, namely:

(*i*) upon the maturity of any Senior Debt by lapse of time, acceleration or otherwise, or

(*ii*) during the continuance of any default by the Company in the payment of principal of or interest on any Senior Debt,

all principal of and premium, if any, and interest on all such Senior Debt shall first be paid in full, or payment thereof in cash shall have been provided for, before any payment on account of principal or interest is made upon the Notes.

(*b*) In the event of any insolvency, bankruptcy, liquidation, reorganization or other similar proceedings, or any receivership proceedings in connection therewith, relative to the Company or its creditors or its property, and in the event of any proceedings for voluntary liquidation, dissolution or other winding up of the Company, whether or not involving insolvency or bankruptcy proceedings, then all principal and interest on all Senior Debt shall first be paid in full, or payment thereof in cash shall have been provided for, before any payment on account of principal or interest is made upon the Notes.

(*c*) In any of the proceedings referred to in paragraph (*b*) above, any payment or distribution of any kind or character, whether in cash, property, stock or obligations which may be payable or deliverable in respect of the Notes shall be paid or delivered directly to the holders of Senior Debt for application in payment thereof, unless and until all principal of and premium, if any, and interest on all Senior Debt shall have been paid in full, or payment thereof in cash shall have been provided for, *provided* that *(i)* in the event that payment or delivery of such cash, property, stock or obligations to the holder of any Note is authorized by an order or decree giving effect, and stating in such order or decree that effect is given, to the subordination of the Notes to Senior Debt, and made by a court of competent jurisdiction in a reorganization proceeding under any applicable bankruptcy or reorganization law, no payment or delivery of such cash, property, stock or obligations payable or deliverable with respect to the Notes shall be made to the holders of Senior Debt; and *(ii)* no such delivery shall be made to holders of Senior Debt of stock or obligations which are issued pursuant to reorganization proceedings or dissolution or liquidation proceedings, or upon any merger, consolidation, sale, lease, transfer or other disposal not prohibited by the provisions of this Agreement, by the Company, as reorganized, or by the corporation succeeding to the Company or acquiring its property and assets, if such stock or obligations are subordinate and junior at least to the extent provided in (and governed by terms substantially identical to the provisions of) this section 12 to the payment of all Senior Debt then outstanding and to the payment of any stock or obligations which are issued in exchange or substitution for any Senior Debt then outstanding.

Subject to the prior payment in full of all Senior Debt, the holders of the Notes shall, to the extent of any payment or distribution to the holders of Senior Debt which would, except for the provisions of this section 12 have been made to the holders of the Notes, be subrogated to the rights of the holders of Senior Debt to receive payments or distributions of assets of the Company applicable to the Senior Debt until the Notes shall be paid in full and no such payments or distributions to the Senior Debt shall, as between the Company, its creditors, other than the holders of Senior Debt, and the holders of the Notes, be deemed to be a payment by the Company to or on account of the Notes. It is understood that the provisions of this section 12 are and are intended solely for the purpose of defining the relative rights of the holders of the Notes, on the one hand, and the holders of Senior Debt, on the other hand, and nothing contained herein is intended to or shall impair, as between the Company, its creditors, other than the holders of Senior Debt, and the holders of the Notes, the obligation of the Company, which is unconditional and absolute, to pay to the holders of the Notes the principal of (and premium, if any) and interest on the Notes as and when the same shall become due and payable in accordance with their terms and without giving effect to this section 12, or to affect the relative rights of the holders of the Notes and creditors of the Company other than the holders of Senior Debt, nor shall anything herein prevent the holders of the Notes from exercising all remedies otherwise permitted by applicable law upon default of the Notes, subject to the rights, if any, under this section 12 of the holders of Senior Debt in respect of cash, property or securities of the Company receivable or received upon the exercise of any such remedy.

13. Conversion. The Notes shall be convertible into shares of Common Stock of the Company on the following terms and conditions:

13.1. *Terms of Conversion.* The holder of any Note or Notes shall have the right, at such holder's option, at any time or from time to time prior to the payment of such Note or Notes (except that, in respect of the principal amount of any Note as to which the Company shall have given the notice of prepayment required by subsection 11.5 hereof or the principal amount of any Note being prepaid pursuant to subsection 11.1, such right shall terminate at the close of business on the day prior to the applicable prepayment date, unless the Company shall default in the payment thereof), to convert such Note or Notes, or any portion (in multiples of $1,000) of the principal amount thereof, into such number calculated to the nearest 1/100th of a share (5/1000ths of a share being considered as nearer to the next higher 1/100th of a share) of fully paid and non-assessable shares of Common Stock as is obtained by dividing the principal amount of Notes surrendered for conversion by the conversion price in effect as of the close of business on the date of such surrender, as determined pursuant to the provisions of this section

13. The holder of any Note desiring to exercise such right of conversion shall, at its option, surrender such Note either at the office of the Company at 107 Trumbull Street, Elizabeth, New Jersey 07206 or at the office of any duly appointed transfer agent for the Company's Common Stock at any time during usual business hours together with written notice stating that such holder elects to convert such Note, or a stated portion of the principal amount thereof or requesting conversion of the portion of the Note to be prepaid pursuant to subsection 11.1 hereof, and if any portion of such Note has been the subject of a call for prepayment pursuant to subsection 11.2, 11.3 or 11.4 hereof which prepayment has not theretofore been made, stating whether such portion shall be included in the portion of the Note designated for conversion. Such notice shall also state the name or names (with addresses) in which the certificate or certificates for Common Stock shall be issued.

13.2. *Effect of Conversion.* As promptly as practicable after the surrender for conversion of any Note, the Company shall deliver or cause to be delivered to or upon the written order of the holder of such Note, certificates representing the number of shares of Common Stock issuable upon such conversion, issued in such name or names as such holder may direct, together with cash payable under subsection 13.5 hereof in respect of any fractional interests in a share of Common Stock issuable upon such conversion and, if only a portion of the principal amount of such Note is converted, a new Note for the unconverted principal amount. Such conversion shall be deemed to have been made as of the close of business on the day of surrender of the Note for conversion, and the rights of the holder of such Note in respect of the principal amount or portion thereof surrendered for conversion shall cease at such time, and the person or persons in whose name or names the certificates for such shares of Common Stock are to be issued shall be treated for all purposes as having become the record holder or holders thereof at such time. If the last day for the exercise of the conversion right is a legal holiday where such Note is to be surrendered for conversion, then such conversion right may be exercised (at the conversion price in effect on such last day) upon the next succeeding day which is not a legal holiday in such location. Each certificate for Common Stock initially issued upon the conversion of any of the Notes shall be stamped or otherwise imprinted with a legend in substantially the following form:

> "The transfer of the shares represented by this certificate is subject to the conditions specified in an Agreement dated September 28, 1971, providing for the sale and purchase of Topper Corporation 7½% Convertible Subordinated Notes due September 30, 1980, and no transfer of such shares shall be valid or effective until such conditions have been fulfilled. Upon the fulfillment of such conditions Topper Corporation has agreed to deliver to the holder hereof a new certificate, not bearing this legend, for the number of shares represented hereby registered in the name of the holder hereof."

Promptly upon the fulfillment of the conditions precedent, provided for in section 24 hereof, to the disposition of any shares of Common Stock issued upon conversion of the Notes the Company will deliver in exchange for the outstanding certificates for such Common Stock, new certificates therefor not bearing the aforsaid legend.

13.3. *Conversion Price and Anti-Dilution Adjustments.* The conversion price in effect as of the close of business on the date of this Agreement shall be $15. Such conversion price shall be subject to adjustment as follows:

(*a*) If and whenever the Company shall issue or sell any shares of its Common Stock (except as provided in paragraph (*d*) of subsection 13.3 hereof) for a consideration per share less than the conversion price in effect immediately prior to the time of such issue or sale, or less than 85% of the Market Price on the date of such issue or sale, then, forthwith upon such issue or sale, the conversion price shall be reduced to the lower of the prices (calculated to the nearest cent) determined as follows:

(*i*) by dividing (*I*) an amount equal to the sum of (*aa*) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the then existing conversion price, and (*bb*) the consideration, if any, received by the Company upon such issue or sale, by (*2*) the total number of shares of Common Stock outstanding immediately after such issue or sale; and

(*ii*) by multiplying the conversion price in effect immediately prior to the time of such issue or sale by a fraction, the numerator of which shall be the sum of (*1*) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the Market Price immediately prior to such issue or sale plus (*2*) the consideration received by the Company upon such issue or sale, and the denominator of which shall be the product of (*3*) the total number of shares of Common Stock outstanding immediately after such issue or sale, multiplied by (*4*) the Market Price immediately prior to such issue or sale.

No adjustment of the conversion price however shall be made in an amount less than $.25 per share but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to $.25 per share or more, *provided* that, upon any adjustment of the conversion price resulting from (*1*) the declaration of a dividend upon, or the making of any distribution in respect of, any stock of the Company payable in Common Stock or any stock or other securities convertible into or exchangeable for Common Stock (such convertible or exchangeable stock or securities being herein called "Convertible Securities"), or (*2*) the reclassification, subdivision or combination of the Common Stock into a greater or smaller number of shares, the foregoing figure of $.25 per share (or such figure as last adjusted) shall be proportionately adjusted to the nearest cent. For the purpose of this paragraph (*a*), the following clauses (*i*) to (*viii*), inclusive, shall also be applicable:

(*i*) In case at any time the Company shall in any manner grant any rights to subscribe for or to purchase, or any options for the purchase of, Common Stock or Convertible Securities, whether or not such rights or options or the right to convert or exchange any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such rights or options or upon conversion or exchange of such Convertible Securities (determined by dividing (*1*) the total amount, if any, received or receivable by the Company as consideration for the granting of such rights or options, plus the minimum aggregate amount of additional consideration payable to the Company upon the exercise of such rights or options, plus, in the case of such Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the conversion or exchange thereof, by (*2*) the total maximum number of shares of Common Stock issuable upon the exercise of such rights or options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such rights or options) shall be less than the conversion price in effect immediately prior to the time of the granting of such rights or options, or less than 85% of the Market Price, determined as of the date of granting such rights or options, as the case may be, then the total maximum number of shares of Common Stock issuable upon the exercise of such rights or options or upon conversion or exchange of the total maximum amount of such Convertible Securities issuable upon the exercise of such rights or options shall (as of the date of granting of such rights or options) be deemed to be outstanding and to have been issued for such price per share. No further adjustments of the conversion price shall be made upon the actual issue of such Common Stock or of such Convertible Securities upon exercise of such rights or options or upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities except as otherwise provided in clause (*iii*) below.

(*ii*) In case the Company shall in any manner issue or sell any Convertible Securities, whether or not the rights to exchange or convert thereunder are immediately exercisable, and the price per share for which Common Stock is issuable upon such conversion or exchange (determined by dividing (*1*) the total amount received or receivable by the Company as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the conversion or exchange thereof, by (y) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities) shall be less than the conversion price in effect immediately prior to the time of such issue or sale, or less than 85% of the Market Price, determined as of the date of such issue or sale of such Convertible Securities, as the case may be, then the total maximum number of shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities shall (as of the date of the issue or sale of such Convertible Securities) be deemed to be outstanding and to have been issued for such price per share, *provided* that, except as otherwise specified in clause (*iii*) below, (*aa*) no further adjustments of the conversion price shall be made upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities, and (*bb*) if any such issue or sale of such Convertible Securities is made upon exercise of any rights to subscribe for or to purchase or any option to purchase any such Convertible Securities for which adjustments of the conversion price have been or are to be made pursuant to other provisions of this paragraph (*a*), no further adjustment of the conversion price shall be made by reason of such issue or sale.

(*iii*) Upon the happening of any of the following events, namely, if the purchase price provided for in any rights or options referred to in clause (*i*) above, the additional consideration, if any, payable upon the conversion or exchange of Convertible Securities referred to in clause (*i*) or clause (*ii*) above or the rate at which Convertible Securities referred to in clause (*i*) or clause (*ii*) above are convertible into or exchangeable for Common Stock shall change (other than under or by reason of provisions designed to protect against dilution), the conversion price in effect at the time of such event shall forthwith be readjusted to the conversion price which would have been in effect at such time had such rights, options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold; and on the expiration of any such option or right or the termination of any such right to convert or exchange such Convertible Securities, the conversion price then in effect hereunder shall forthwith be increased to the conversion price which would have been in effect at the time of such expiration or termination had such right, option or Convertible Security never been issued, and the Common Stock issuable thereunder shall no longer be deemed to be outstanding.

(*iv*) In case the Company shall declare a dividend or make any other distribution upon any stock of the Company payable in Common Stock or Convertible Securities, any Common Stock or Convertible Securities, as the case may be, issuable in payment of such dividend or distribution shall be deemed to have been issued or sold without consideration.

(*v*) In case any rights or options to purchase any shares of Common Stock or Convertible Securities shall be issued in connection with the issue or sale of other securities of the Company, together comprising one integral transaction in which no specific consideration is allocated to the rights or options, such rights or options shall be deemed to have been issued without consideration.

(*vi*) In case any shares of Common Stock or Convertible Securities or any rights or options to purchase any such Common Stock or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Company therefor, without deduction of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Company in connection therewith. In case any shares of Common Stock or Convertible Securities or any rights or options to purchase any such Common Stock or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Company shall be deemed to be the lesser of (*aa*) the fair market value on the issue date of the securities so issued by the Company, without deduction of any expenses incurred by the Company in connection therewith, or (*II*) the fair value of such consideration as determined by the Board of Directors of the Company without deduction of any such expenses. In event of any consolidation or merger of the Company with another corporation in which the Company is not the surviving corporation or in the event of any sale of all or substantially all of the assets of the Company for stock or other securities of any corporation, the Company shall be deemed to have issued a number of shares of its Common Stock for the capital stock of the other corporation outstanding immediately prior to the transaction computed on the basis of the actual exchange ratio on which the transaction was predicated and for a consideration equal to the fair market value on the date of such transaction of such capital stock of the other corporation, and if any such calculation results in adjustment of the conversion price, the determination of the number of shares of Common Stock issuable upon conversion of the Notes immediately prior to such merger, conversion or sale, for the purpose of paragraph (*c*) of this subsection 13.3 shall be made after giving effect to such adjustment of the conversion price; *provided, however,* that the foregoing shall apply only if immediately after such consolidation, merger or sale, less stock of the transferee or surviving corporation in terms of market value is held by the stockholders of such other corporation than is held by the Company's stockholders.

(*vii*) In case the Company shall take a record of the holders of its Common Stock for the purpose of entitling them (*a*) to receive a dividend or other distribution payable in Common Stock or in Convertible Securities, or (*b*) to subscribe for or purchase Common Stock or Convertible Securities, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(*viii*) Disposition after the date of the original issue of the Notes of the first 50,600 aggregate amount of shares (subject to adjustment to reflect any reclassification, subdivision or combination of Common Stock after such date) of Common Stock held by or for the account of the Company shall be considered an issue or sale of Common Stock for the purpose of this paragraph (*a*) and, until so disposed of, such shares shall not be included in determining the shares of Common Stock outstanding at any given time. If and after such 50,600 shares (subject to adjustment as aforesaid) shall have been disposed of, the number of shares of Common Stock outstanding at any given time shall be deemed to include shares owned or held by or for the account of the Company, and the disposition of any such shares shall not be considered an issue or sale of Common Stock for the purposes of this subsection 13.3(*a*).

(*b*) In case the Company shall declare a dividend upon the Common Stock payable otherwise than out of earnings or earned surplus and otherwise than in Common Stock or Convertible Securities, the conversion price in effect immediately prior to the declaration of such dividend shall be reduced by an amount equal, in the case of a dividend in cash, to the amount thereof payable per share of the Common Stock or, in the case of any other dividend, to the fair value thereof per share of the Common Stock as determined by the Board of Directors of the Company. For the purposes of the foregoing, a dividend other than in cash shall be considered payable out of earnings or earned surplus only to the extent that such earnings or earned surplus is charged an amount equal to the fair value of such dividend as determined by the Board of Directors of the Company. Such reductions shall take effect as of the date on which a record is taken for the purpose of such dividend, or, if a record is not taken, the date as of which the holders of Common Stock of record entitled to such dividend are to be determined.

(*c*) In case the Company shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares, the conversion price in effect immediately prior to such subdivision shall be proportionately reduced, and, conversely, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of shares, the conversion price in effect immediately prior to such combination shall be proportionately increased.

(*d*) Anything herein to the contrary notwithstanding, the Company shall not be required to make any adjustment of the conversion price in the case of (*i*) the issue of Common Stock upon the exercise of any of the presently outstanding options, referred to in clause (*b*) of subsection 5.3 hereof, granted under the Company's 1966 and 1969 Qualified Stock Option Plans, as amended; (*ii*) the grant to officers or employees of the Company or its Subsidiaries in connection with their employment of options to purchase not exceeding 265,000 shares of Common Stock (subject to proportionate adjustment to reflect any reclassification, subdivision or combination of Common Stock), and the issue of Common Stock upon the exercise of any such options; and (*iii*) the grant of options to officers or employees of the Company or its Subsidiaries in connection with their employment, of options to purchase a number of shares of Common Stock not exceeding (subject to proportionate adjustment as aforesaid) the number of shares subject to any option referred to in the foregoing subclause (*i*) and (*ii*) to the extent that the same shall have terminated without exercise, and the issue of Common Stock upon the exercise of any such options.

(*e*) If any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provision shall be made whereby the holder of any Note shall thereafter have the right to receive, upon the basis and upon the terms and conditions hereof and in lieu of the shares of the Common Stock of the Company immediately theretofore receivable upon conversion, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such Common Stock immediately theretofore receivable upon the conversion of the Notes had such reorganization, reclassification, consolidation, merger or sale not taken place, and in any such case appropriate provisions shall be made with respect to the rights and interests of the holders of the Notes to the end that the provisions hereof (including without limitation provisions for adjustment of the conversion price and of the number of shares issuable upon conversion of the Notes) shall thereafter be applicable, as nearly as may be in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company shall not effect any such consolidation, merger or sale, unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing such assets shall assume by written instrument, executed and mailed or delivered to the holders of the Notes at the last addresses of such holders appearing on the books of the Company, the obligation to deliver to such holders such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holders may be entitled to receive.

(*f*) Upon any adjustment of the conversion price, then in each such case the Company shall give written notice thereof, by first class mail, postage prepaid, addressed to the registered holders of the Notes at the address of each such holder as shown on the books of the Company, which notice shall state the conversion price resulting from such adjustment.

13.4. *Common Stock.* As used herein the term "Common Stock" shall mean and include the Company's Common Stock authorized on the date of the original issue of the Notes and shall also include any capital stock of any class of the Company thereafter authorized which shall not be limited to a fixed sum or percentage in respect of the rights of the holders thereof to participate in dividends and in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company; provided, however, that the shares issuable upon the conversion of the Note or Notes shall include only shares of such class designated in the Company's Certificate of Incorporation as Common Stock on the date of the original issue of the Note or Notes or, in case of any reorganization, reclassification, consolidation, merger or sale of assets of the character referred to in paragraph (*e*) of subsection 13.3 hereof, the stock, security or assets provided for in such paragraph.

13.5. *Payments in Lieu of Fractional Shares; Interest and Dividends.* No fractional shares of stock shall be issued upon the conversion of any Note. The number of shares which shall be issuable upon the conversion of any Note or Notes surrendered for conversion by the same holder shall be computed on the basis of the aggregate principal amount of the Notes so surrendered. If any fractional interest in a share of Common Stock would, except for the provisions of this subsection 13.5, be deliverable upon the conversion of any Note, the Company shall, in lieu of delivering the fractional share therefor, adjust such fractional interest by payment to the holder of such surrendered Note of an amount in cash equal (computed to the nearest cent) to the value of such fractional interest computed on the basis of the Market Price of the Company's Common Stock on the date of surrender of the Note or Notes for conversion. The Company shall pay all interest on the principal amount of any Note surrendered for conversion accrued to the date of such surrender. No adjustment shall be made upon any conversion for any cash dividends on the Common Stock delivered pursuant thereto.

13.6. *Covenants in Respect of Certain Actions.* The Company will at all times reserve and keep available out of its authorized but unissued stock, solely for the purpose of issue upon conversion of the Notes, such number of shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Notes, and will take all such action as may be necessary to assure that such shares may be so issued without violation of any applicable law or regulation and shall be listed within a reasonable time after the date hereof (subject to issuance or notice of issuance) upon each national stock exchange upon which the Common Stock of the Company is then listed. Before taking any action which would cause any adjustment reducing the conversion price below the then par value of the shares of Common Stock, the Company will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock at the conversion price as so adjusted.

13.7. *Taxes.* The issuance of certificates for shares of Common Stock upon conversion shall be made without charge for any tax in respect of such issuance. However, if any such certificate is to be issued in a name other than that of the holder of the converted Notes, the Company shall not be required to issue or deliver any stock unless and until the holder has paid to the Company the amount of any tax which may be payable in respect of any transfer involved in such issuance or shall establish to the satisfaction of the Company that such tax has been paid.

13.8. *Prior Notice of Certain Events.* In case at any time:

(*1*) the Company shall declare to the holders of its Common Stock any cash dividend at a rate in excess of the rate of the last cash dividend theretofore paid;

(*2*) the Company shall declare any dividend upon its Common Stock payable in stock or make any special dividend or other distribution (other than a cash dividend) to the holders of its Common Stock;

(*3*) the Company shall offer for subscription pro rata to the holders of its Common Stock any additional shares of stock of any class or other rights;

(*4*) there shall be any capital reorganization, or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another corporation; or

(*5*) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of said cases, the Company shall give to each holder of Notes (*i*) at least 15 days' prior written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, and (*ii*) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, at least 15 days' prior written notice of the date when the same shall take place. Such notice in accordance with the foregoing clause *(i)* shall also specify, in the case of any such dividend or subscription rights, the date on which the holders of Common Stock shall be entitled thereto, and such notice in accordance with the foregoing clause *(ii)* shall also specify the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, as the case may be.

14. FUNDED DEBT.

14.1. *Funded Debt of the Company.* The Company will not, directly or indirectly, create, incur, assume, guarantee or otherwise become liable with respect to any Funded Debt except

(*a*) the Notes;

(*b*) Funded Debt secured as permitted by and within the limits specified in clause (*e*) of section 15 hereof; and

(*c*) other Funded Debt if,

(*i*) after giving effect thereto and to the receipt of the proceeds thereof and the discharge of any liabilities which will be discharged substantially contemporaneously therewith, Consolidated Net Tangible Assets shall amount to at least 200% of Consolidated Funded Debt, and

(*ii*) the Consolidated Net Earnings accrued in each of any two of the three next preceding fiscal years, determined before taxes on income and interest on Funded Debt accrued during such respective years, shall have amounted to 300% or more of the annual interest charges on Consolidated Funded Debt outstanding after giving effect to the transaction in question.

14.2. *Funded Debt of Subsidiaries.* The Company will not permit any Subsidiary to, directly or indirectly, create, incur, assume, guarantee or otherwise become or be liable with respect to any Funded Debt unless the same (*a*) is owing to the Company or another Subsidiary, or (*b*) is secured as permitted by and within the limits specified in clause (*e*) of section 15 hereof.

15. MORTGAGES, PLEDGES, LEASES EQUIVALENT TO PURCHASE, ETC. The Company will not and will not permit any Subsidiary to, directly or indirectly, at any time create, incur, assume or permit to exist any mortgage, pledge, lien, encumbrance or charge on any property or asset of the Company or any Subsidiary, whether owned at the date hereof or hereafter acquired, or acquire or agree to acquire any property or assets of any character under any conditional sale agreement or any title retention agreement, or enter into or permit to exist any Lease Equivalent to Purchase, except:

(*a*) mortgages, pledges and liens securing Senior Debt;

(*b*) liens for taxes, assessments or governmental charges not at the time due or which are being contested in good faith by appropriate proceedings;

(*c*) other liens, charges and encumbrances incidental to the conduct of its business or the ownership of its properties or assets which are not incurred in connection with the borrowing of money or the obtaining of advances or credit, and which do not in the aggregate materially detract from the value of its properties or assets or materially impair the use thereof in the operation of its business;

(*d*) mortgages, pledges and liens by a Subsidiary to secure obligations of such Subsidiary to the Company or another Subsidiary;

(*e*) mortgages and other liens on, or conditional purchases of, real or personal property hereafter acquired by the Company or any Subsidiary to secure the payment of Indebtedness incurred to finance part of the purchase price of such property, and Leases Equivalent to Purchase of real or personal property hereafter acquired by the Company or any Subsidiary, *provided* that *(i)* each such mortgage, lien, contract of conditional sale or Lease Equivalent to Purchase shall at all times be confined solely to the item of property so acquired, *(ii)* the amount of Indebtedness secured by any such mortgage, lien or contract of conditional sale shall not exceed 66⅔% of the cost of such property or the fair value thereof (in the judgment of the Company's Board of Directors) at the time of acquisition, whichever is less, and *(iii)* the aggregate principal amount of Indebtedness secured or represented by all such mortgages, liens, contracts of conditional sale and Leases Equivalent to Purchase shall not exceed $3,000,000 at any one time outstanding;

(f) presently outstanding conditional purchase contracts relating to moulding equipment not exceeding $132,000 in the aggregate; and

(g) mortgages, pledges and liens by a Subsidiary to secure such Subsidiary's Indebtedness for borrowed money not constituting Funded Debt.

The Company will not and will not permit any Subsidiary to discount or sell with recourse any accounts or notes receivable of the Company or such Subsidiary except that the foregoing shall not prohibit any pledges or assignments permitted by clause *(a)* of this Section 15.

16. DIVIDENDS, STOCK PURCHASES, RESTRICTED INVESTMENTS, ETC. The Company will not directly or indirectly *(a)* declare or pay any dividend on or declare or make any other distribution on account of any shares of any class of capital stock of the Company now or hereafter outstanding, *(b)* redeem, retire, purchase or otherwise acquire any shares of any class of capital stock of the Company now or hereafter outstanding, or permit any Subsidiary to do so, or *(c)* make or permit any Subsidiary to make any Restricted Investment, unless, after giving effect to the proposed action

(i) the sum of *(aa)* the aggregate amount of all such dividends and distributions directly or indirectly declared, paid or made during the period from the date hereof to and including the date of the proposed action, *(bb)* the excess, if any, of (1) the aggregate amount of all sums and property (taken at the book value or market value thereof, whichever is greater) directly or indirectly applied, during such period, to all redemptions, retirements, purchases or other acquisitions by the Company or any of its Subsidiaries of any shares of capital stock of the Company, over (2) the net cash proceeds of all sales by the Company during such period of shares of any class of its capital stock or of any obligations which have been converted into any such shares, plus *(cc)* the aggregate amount of all Restricted Investments owned by the Company and its Subsidiaries at the time of (and after giving effect to the proposed action), would not exceed an amount equal to the Consolidated Net Earnings accrued from January 1, 1972 to the end of the quarterly accounting period immediately prior to the date of such proposed action plus $1,000,000 and

(ii) the ratio set forth in subclause *(i)* of clause *(c)* of subsection 14.1 is satisfied at and as of such time.

Notwithstanding the foregoing, the Company may declare and pay dividends on, and redeem pursuant to presently applicable sinking fund provisions, any shares of its 5% Cumulative Preferred Stock outstanding on the date hereof, *provided* that the amount of all such dividends and redemptions shall be included in any computation under the foregoing clause *(i)*. The amount of any dividend or other distribution or payment in property shall be deemed to be the greater of the market value thereof at the time of distribution or payment or the net book value thereof as at such time. The foregoing provisions shall not restrict or apply to, and there shall not be taken into account in any computation made thereunder, *(x)* any dividend paid or distribution made in shares of stock or rights to purchase shares of stock of the Company, including cash paid in lieu of, or to acquire, fractional shares in connection with the payment or distribution of such dividend, *(y)* any acquisition of shares of stock of the Company in exchange for other shares of stock of the Company, except that any such cash paid to stockholders in connection therewith shall be considered a cash distribution for the purposes of such provisions and computations, or *(z)* any reclassification or change of shares of stock of the Company (whether or not outstanding), whether by way of split-up, combination or otherwise.

17. LONG-TERM LEASES. The Company will not and will not permit its Subsidiaries to enter into any Long-Term Lease unless either

(*a*) after giving effect thereto the aggregate annual Rentals under all the outstanding Long-Term Leases do not exceed $2,000,000, or

(*b*) the Consolidated Net Earnings accrued in each of any two of the three next preceding fiscal years, determined before taxes, interest on Funded Debt and Rentals under Long-Term Leases accrued during such respective years, shall have amounted to 250% or more of the sum of the annual interest charges on Funded Debt and the annual Rentals under Long-Term Leases outstanding after giving effect to the transaction in question.

18. Consolidated Working Capital. The Company will not permit the excess of Consolidated Current Assets over Consolidated Current Liabilities at any time to amount to less than $20,000,000. The Company will not permit the ratio of Consolidated Current Assets to Consolidated Current Liabilities to (*a*) amount to less than 200% at the end of any fiscal year, or (*b*) amount to less than 150% at the end of each of the first three quarters in each fiscal year.

19. Consolidated Tangible Net Worth. The Company will not permit Consolidated Tangible Net Worth at any time to amount to less than $15,000,000.

20. Investments, Loans, Advances, etc. The Company will not, and will not permit any Subsidiary to, directly or indirectly, purchase or otherwise acquire or own any stock or securities or make or have outstanding any loans or advances or other investments, except (*a*) stock or securities of the Company if and to the extent, in the case of such acquisition of stock, that the acquisition thereof is permitted by the provisions of section 16 hereof, (*b*) stock or securities of, loans and advances to, and other investments in, a Subsidiary or a corporation which simultaneously therewith becomes a Subsidiary, (*c*) direct obligations of the United States of America, prime commercial paper and certificates of deposit in or bankers acceptances of United States commercial banks having capital resources in excess of $50,000,000, (*d*) stock and securities received in settlement of debts, created in the ordinary course of business, owing to the Company or any Subsidiary and (*e*) the Company's presently outstanding investments in the corporations referred to in the last sentence of subsection 4.12 hereof and investments made hereafter by the Company and/or Subsidiaries aggregating not more than $250,000 in Topper Toys (Hong Kong) Limited, the Hong Kong corporation referred to therein and not more than $50,000 in the other corporations referred to therein.

21. Sale of Indebtedness or Stock of Subsidiaries, etc.

21.1. *Sales.* The Company will not and will not permit any Subsidiary to sell, transfer or otherwise dispose of (except to the Company or a Subsidiary) any Indebtedness of any other Subsidiary or any shares of stock of any other Subsidiary, provided, subject to the provisions of section 22 hereof prohibiting disposition of all or substantially all of the assets of the Company, that all Indebtedness and all shares of stock of any Subsidiary at the time owed to or owned by the Company and/or other Subsidiaries may be sold or otherwise disposed of as an entirety for a consideration which, in the judgment of the Company's Board of Directors, represents the fair value of the Indebtedness and shares of stock so sold or otherwise disposed of, if at the time of such sale or other disposition such Subsidiary is not owed and does not own directly or indirectly any Indebtedness or any shares of stock of any other Subsidiary (unless all Indebtedness and shares of stock of such other Subsidiary owed or owned, directly or indirectly, by the Company and all Subsidiaries are simultaneously being disposed of as permitted by this subsection 21.1).

21.2. *Issues by Subsidiaries.* The Company will not permit any Subsidiary to issue or sell (*a*) any share of its capital stock preferred as to dividends or assets except to the Company or another Subsidiary, or (*b*) any shares of any other class of its capital stock to any purchaser other than the Company or another Subsidiary if as a result thereof the corporation in question would cease to constitute a Subsidiary.

22. Sales, Mergers, etc. The Company will not, and will not permit any Subsidiary to, sell, transfer or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge into, any other person, *provided* that the foregoing shall not prohibit (*a*) a Subsidiary from making any such disposition to the Company or another Subsidiary or from consolidating with or merging into another Subsidiary or (if the Company is the surviving corporation) the Company, (*b*) a Subsidiary from selling or otherwise disposing of all or substantially all of its assets subject to the conditions specified in subsection 21.1 hereof with reference to a sale of the stock of such Subsidiary, or (*c*) the Company from transferring all or substantially all of its assets to another corporation in exchange for capital stock of such other corporation or another corporation from consolidating or merging with the Company if (*i*) upon such transfer, consolidation or merger, the payment of the principal and premium, if any, and interest on all of the Notes and the performance of all of the terms, covenants and conditions contained herein and in the Notes, shall be expressly assumed in writing by the transferee corporation or by the corporation surviving such consolidation or merger unless the Company is the surviving corporation, (*ii*) immediately after such transaction, less stock of the transferee or surviving corporation in terms of market value is held by the stockholders of such other corporation than is held by the Company's stockholders, (*iii*) immediately after giving effect thereto there shall not exist any condition or event which constitutes an Event of Default or which, after notice or lapse of time or both, would constitute an Event of Default, and (*iv*) immediately after giving effect thereto the transferee or surviving corporation would be permitted to incur Funded Debt under section 14 hereof.

23. Insurance; Taxes. The Company will maintain or cause to be maintained, with responsible insurers, insurance with respect to its properties and business and the properties and business of its Subsidiaries against such casualties and contingencies and in such types and amounts as, in the judgment of the Company's executive officers, is properly adequate. The Company will pay or cause to be paid all taxes levied upon any of its properties or any of the properties of its Subsidiaries or in respect of its or their franchises or income before the same become delinquent, except that (unless and until foreclosure, distraint, sale or other similar proceedings have been commenced) no such tax need be paid if being contested in good faith and by appropriate proceedings diligently conducted and if such reserve or other appropriate provision, if any, as shall be required by good accounting practice shall have been made therefor.

24. Restrictions on Transferability of Notes and Common Stock issued upon Conversion.

(*a*) The Notes and Common Stock issued upon the conversion of the Notes shall not be transferable except upon the conditions specified in this section 24. The holder of any Note, by acceptance thereof, agrees, prior to any transfer of such Note and prior to the disposition of any shares of Common Stock theretofore acquired upon the conversion thereof to give written notice to the Company expressing such holder's intention to effect such transfer or disposition and describing briefly the proposed manner thereof. Promptly upon receiving such notice, the Company shall present copies thereof to its counsel and to counsel designated by you, and the following provisions shall apply:

(*i*) If in the opinion of each such counsel, the proposed transfer of such Note or disposition of Common Stock issued upon conversion of such Note is exempted from the registration requirements of the Securities Act of 1933 as then in force or any similar federal statute then in force, the Company, as promptly as practicable, shall notify the holder of such opinion, whereupon, such holder shall be entitled to transfer such Note or dispose of such Common Stock, all in accordance with the terms of the notice delivered by such holder to the Company.

(*ii*) If in the opinion of either such counsel the proposed transfer of such Note may not be effected without complying with such registration requirements, such transfer shall not be made. If in the opinion of either such counsel the proposed disposition of Common Stock issued upon conversion of such Note may not be effected without such registration of such Common Stock, the same shall not be disposed of until so registered in accordance with the further provisions of this Section 24.

(*b*) Upon receipt by the Company at any time after January 1, 1972, of

(*i*) written requests from the holders of Notes or Common Stock issued upon conversion thereof representing at least 40% of all Common Stock issued or issuable upon conversion of the Notes and which as determined in accordance with the foregoing procedures may not be disposed of without such registration, stating that the holders wish to dispose of such Common Stock, or

(*ii*) if a registration shall have been previously completed pursuant to requests given under the foregoing clause (*i*), written requests from the holders of Notes or Common Stock issued upon conversion thereof representing at least 40% of the shares of Common Stock issued or issuable upon conversion of the Notes (other than shares theretofore registered pursuant to any provision of this section 24), and which as determined in accordance with the foregoing procedures may not be disposed of without such registration,

the Company will give written notice of such requests to all holders of Notes and Common Stock issued upon conversion thereof (other than the holders making the requests and other than the holders of Common Stock who shall have acquired the same upon disposition pursuant to a registration hereunder or pursuant to a determination under the foregoing procedures that such registration is not required) offering the opportunity during the 20 days next succeeding such notice of inclusion of shares of Common Stock issued or issuable upon conversion of the Notes in the requested registration. The Company shall use its best efforts to file (as soon as practicable after the expiration of the aforesaid 20-day period) and to cause to be made effective a registration statement under the Securities Act of 1933 as then in force or any similar Federal statute then in force relating to the shares for which such registration was first requested and shares with respect to such opportunity of inclusion in the registration has been accepted (but only if under the foregoing procedures it has been determined that such registration is required with respect to such shares) and on terms permitting the disposition of the Common Stock so registered either through an underwritten public offering or dealer conducted public distributions calculated to dispose of all such Common Stock in a single selling effort so far as practicable and in any event within 45 days following the effective date of such registration. Notwithstanding the foregoing the Company shall not be required to undertake any registration under this paragraph (*b*) requested within six months of the effective date of a registration statement with respect to which the holders of Notes or Common Stock issued upon conversion thereof were afforded registration rights in conformity with any provision of this section 24; and the Company shall not be required to undertake any such registration statement which would require audits other than the Company's year-end audit. It is understood that the Company shall not be required to cause to be made effective more than two registrations under this paragraph (*b*) pursuant to the aforesaid provisions. The Company shall bear all expenses of such registrations and, in addition, it will use its best efforts at its expense to qualify the Common Stock so registered for sale under the laws of such states as shall be reasonably designated by the holders thereof.

(*c*) In case of any proposed registration from time to time of Common Stock other than the Common Stock issued or issuable upon the conversion of the Notes under the Securities Act of 1933 as then in force or any similar Federal statute then in force in connection with an underwritten primary or secondary public offering of Common Stock, the Company will give each holder of Notes or Common Stock issued upon the conversion thereof (other than holders of Common Stock who shall have acquired the same upon disposition pursuant to a registration hereunder or pursuant to a determination under the foregoing procedures that such registration was not required) at least 15 days' prior written notice of the filing of such proposed registration. If requested by any such holder in writing within 12 days after receipt of any such notice, the Company will use its best efforts at its expense to register all or part of the Common Stock issued or issuable upon the conversion of such holder's Notes (as may be specified in such request but only if under the foregoing procedures it has been determined that such registration is required with respect to such shares) under such Act or statute for sale as part of the underwritten offering in question and from time to time amend or supplement the registration statement and prospectus used in connection therewith if and to the extent and for such period as is necessary in order to comply with such Act or statute, *provided*, that (*i*) in the case of any such proposed registration in connection with an exclusively secondary distribution of Common Stock, the Company shall not be required to use its best efforts to register Common Stock issued or issuable upon the conversion of Notes unless and until each holder of such Common Stock requesting registration thereof shall have made due provision for the payment of its pro-rata share of the expenses incurred by the Company in effecting such registration, and (*ii*) in no event shall the Company be required to use its best efforts to register Common Stock issued or issuable upon conversion of Notes as part of such a proposed registration unless so requested to register at least 53,000 shares (subject to proportionate adjustments to reflect any reclassification, subdivision or combination of Common Stock). If in connection with any such proposed registration, the underwriters of such distribution determine that the number of shares which would comprise a successful distribution is less than the total number proposed to be included therein, each holder of Common Stock issued upon conversion of the Notes proposing to sell the same as part of such distribution will accept a diminution of the number of such shares proposed to be sold pro rata with all other persons participating as selling stockholders in the offering, it being understood that if such distribution includes a primary offering by the Company the amount of shares proposed to be sold by the Company need not be reduced

(*d*) In the event of any registration provided for under this section 24, the Company will indemnify each holder of Common Stock issued upon conversion of Notes and included in such registration and each person who controls any such holder within the meaning of the Securities Act of 1933 as then in force against all losses, claims, damages, liabilities and expenses (under such Act, at common law or otherwise) resulting from any untrue statement or alleged untrue statement of a material fact contained in any registration statement or prospectus or resulting from any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses result from any untrue statement or omission contained in information furnished in writing to the Company by such holder expressly for use therein. If the offering pursuant to any registration provided for under paragraph (*b*) or (*c*) of this section 24 is made through underwriters, the Company agrees to enter into an underwriting agreement in customary form with such underwriters and to indemnify such underwriters and each person who controls any such underwriter within the meaning of the Securities Act of 1933 as then in force to the same extent as hereinbefore provided with respect to indemnification of the holders of the Common Stock issued upon conversion of Notes. In connection with any registration in which a holder is participating, each such holder will furnish to the Company in writing such information as shall be reasonably requested by the Company for use in any such registration statement or prospectus and will indemnify the Company, its directors and officers, and each person, if any, who controls the Company within the meaning of such Act, against all losses, claims, damages, liabilities and expenses resulting from any untrue statement or alleged untrue statement of a material fact or any omission or alleged omission of a material fact required to be stated in the registration statement or prospectus and necessary to make the statements therein not misleading, but only to the extent that such untrue statement or omission is contained in information so furnished in writing by such holder expressly for use therein.

25. Waiver; Amendments. Upon the written consent of the holders of at least 66⅔% of the principal amount of the Notes at the time outstanding, compliance with any of the provisions, covenants and conditions set forth in sections 4, 8 and 14 through 23 hereof may be waived, or any of such provisions, covenants or conditions may be modified No such waiver or modification shall be made under this Agreement which would, without the consent of the holder of each Note affected thereby, reduce the principal of, or premium on, or rate of interest payable on the Notes, or postpone the date fixed for the payment or prepayment of principal of, premium, if any, or any interest on, the Notes, or adversely affect the conversion rights with respect to any Note.

26. DEFAULT. If any of the following events (herein called "Events of Default") shall occur and be continuing:

(*a*) if the Company shall default in the payment of any part of the principal of any Note when the same shall become due and payable, whether at maturity or at a date fixed for prepayment or by acceleration or otherwise; or

(*b*) if the Company shall default in the payment of any installment of interest on any Note for more than 10 days after the same shall become due and payable; or

(*c*) if the Company or any Subsidiary shall default (as principal or guarantor or other surety) either in the payment of the principal of or premium, if any, or interest on any obligation for borrowed money (other than the Notes), or with respect to any of the provisions of any evidence of Indebtedness for borrowed money (other than the Notes), or any agreement relating thereto, and such default shall continue and remain unwaived by the lender for more than the period of grace, if any, therein specified; or

(*d*) if the Company or any Subsidiary shall default in the performance of or compliance with any agreement, condition or term contained in sections 14 to 22 hereof, inclusive; or

(*e*) if the Company or any Subsidiary shall default in the performance of or compliance with any agreement, condition or term contained herein other than those referred to above in this section 26, and such default shall not have been remedied withi 30 days after written notice thereof shall have been given to the Company by a holder of any Note; or

(*f*) if any material representation or warranty made in writing by or on behalf of the Company herein or in connection with the transactions contemplated hereby shall prove to have been false or incorrect in any material respect on the date as of which made; or

(*g*) if the Company or any Subsidiary shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts as they become due, or shall file a voluntary petition in bankruptcy, or shall be adjudicated a bankrupt or insolvent, or shall file any petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, dissolution or similar relief under any present or future statute, law or regulation, or shall file any answer admitting the material allegations of a petition filed against the Company or any Subsidiary in any such proceeding, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of the Company or any Subsidiary, or of all or any substantial part of the properties of the Company or any Subsidiary, or the Company or its directors or majority stockholders shall take any action looking to the dissolution or liquidation of the Company; or

(*h*) if, within 60 days after the commencement of any proceeding against the Company or any Subsidiary seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such proceeding shall not have been dismissed or if, within 60 days after the appointment without the consent or acquiescence of the Company or such Subsidiary of any trustee, receiver or liquidator of the Company or any Subsidiary or of all or any substantial part of the properties of the Company or any Subsidiary, such appointment shall not have been vacated; or

(*i*) if a final judgment which, with other outstanding final judgments against the Company and its Subsidiaries, exceeds an aggregate of $50,000 shall be rendered against the Company or any Subsidiary and if within 60 days after entry thereof such judgment shall not have been discharged or execution thereof stayed pending appeal or if within 60 days after the expiration of any such stay such judgment shall not have been discharged;

then and in any such event any holder or holders of 25% or more in principal amount of the Notes at the time outstanding may at any time (unless all defaults theretofore shall have been remedied) at its or

their option, by written notice or notices to the Company, declare all the Notes to be due and payable, whereupon the same shall forthwith mature and become due and payable without presentment, demand, protest or notice, all of which are hereby waived.

27. REMEDIES ON DEFAULT, ETC. In case any one or more Events of Defaults shall occur and shall not have been waived or cured, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by a suit in equity, action at law or other appropriate proceeding, whether for the collection of amounts due on such Note (by declaration or otherwise), for the specific performance of any agreement contained herein or in such Note, or for an injunction against a violation of any of the terms or provisions hereof or thereof or in aid of the exercise of any power granted hereby or thereby or by law. In case of a default in the payment of any principal of or interest on any Note, the Company will pay to the holder thereof such further amount as shall be sufficient to cover the reasonable cost and expense of collection, including (without limitation) reasonable attorneys' fees. If any holder of any Note shall give any notice or take any other action in respect of a claimed default, the Company will forthwith give written notice thereof to all other holders of the Notes at the time outstanding, describing the notice or action and the nature of the claimed default. No course of dealing and no delay on the part of any holder of any Note in exercising any right shall operate as a waiver thereof or otherwise prejudice such holder's rights. No remedy conferred hereby or by any Note upon any holder thereof shall be exclusive of any other remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise.

28. PLACE OF PAYMENT. So long as you shall hold any of the Notes, the Company will pay the interest thereon and any prepayments of principal thereof (other than prepayments in full) pursuant to section 11 hereof, without any presentment thereof and without notation of such payment being made thereon, notwithstanding any provision to the contrary herein or in the Notes with respect to place of payment, by check duly mailed to you at your office at the address shown at the beginning of this Agreement or in accordance with any unrevoked written direction from you to the Company. You agree that, prior to the sale or transfer of any Note by you, you shall either (*a*) surrender the same to the Company in exchange for a new Note in the principal amount equal to the principal amount remaining unpaid of the Note surrendered and otherwise having the same terms and provisions as the Note surrendered, or (*b*) make a notation thereon of the extent to which any payment has been made on account of the principal thereof and furnish the Company with your certificate stating that such notation has been made. You further agree that you will promptly notify the Company of the name and address of the transferee of such Note if known to you.

29. EXPENSES. The Company will, whether or not the transactions herein contemplated shall be consummated, pay and save you harmless against liability for the payment of (*a*) all costs and expenses of the issue of the Notes and shares of Common Stock issuable upon conversion thereof (including the payment of any taxes payable with respect to the original issue of the shares of Common Stock issuable upon conversion of the Notes) and of the Company's performance of and compliance with all agreements and conditions contained herein on its part to be performed or complied with, and (*b*) the reasonable fees and expenses and disbursements of your special counsel in connection with the subject matter of this Agreement or any future amendment hereto or waiver hereunder. If, under any applicable law in effect on the closing date or under any retroactive provision of any law subsequently enacted, it shall be determined that any tax is payable in respect of the original issue of any of the Notes, the Company will pay any such tax and penalties, if any, and will indemnify you against and save you harmless from any loss or damage resulting from or rising out of the nonpayment or delay in payment of any such tax. Notwithstanding any other provision contained in this Agreement, the covenants and agreements of the Company in this section 29 shall survive payment of the Notes.

their option, by written notice or notices to the Company, declare all the Notes to be due and payable, whereupon the same shall forthwith mature and become due and payable without presentment, demand, protest or notice, all of which are hereby waived.

27. REMEDIES ON DEFAULT, ETC. In case any one or more Events of Defaults shall occur and shall not have been waived or cured, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by a suit in equity, action at law or other appropriate proceeding, whether for the collection of amounts due on such Note (by declaration or otherwise), for the specific performance of any agreement contained herein or in such Note, or for an injunction against a violation of any of the terms or provisions hereof or thereof or in aid of the exercise of any power granted hereby or thereby or by law. In case of a default in the payment of any principal of or interest on any Note, the Company will pay to the holder thereof such further amount as shall be sufficient to cover the reasonable cost and expense of collection, including (without limitation) reasonable attorneys' fees. If any holder of any Note shall give any notice or take any other action in respect of a claimed default, the Company will forthwith give written notice thereof to all other holders of the Notes at the time outstanding, describing the notice or action and the nature of the claimed default. No course of dealing and no delay on the part of any holder of any Note in exercising any right shall operate as a waiver thereof or otherwise prejudice such holder's rights. No remedy conferred hereby or by any Note upon any holder thereof shall be exclusive of any other remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise.

28. PLACE OF PAYMENT. So long as you shall hold any of the Notes, the Company will pay the interest thereon and any prepayments of principal thereof (other than prepayments in full) pursuant to section 11 hereof, without any presentment thereof and without notation of such payment being made thereon, notwithstanding any provision to the contrary herein or in the Notes with respect to place of payment, by check duly mailed to you at your office at the address shown at the beginning of this Agreement or in accordance with any unrevoked written direction from you to the Company. You agree that, prior to the sale or transfer of any Note by you, you shall either (*a*) surrender the same to the Company in exchange for a new Note in the principal amount equal to the principal amount remaining unpaid of the Note surrendered and otherwise having the same terms and provisions as the Note surrendered, or (*b*) make a notation thereon of the extent to which any payment has been made on account of the principal thereof and furnish the Company with your certificate stating that such notation has been made. You further agree that you will promptly notify the Company of the name and address of the transferee of such Note if known to you.

29. EXPENSES. The Company will, whether or not the transactions herein contemplated shall be consummated, pay and save you harmless against liability for the payment of (*a*) all costs and expenses of the issue of the Notes and shares of Common Stock issuable upon conversion thereof (including the payment of any taxes payable with respect to the original issue of the shares of Common Stock issuable upon conversion of the Notes) and of the Company's performance of and compliance with all agreements and conditions contained herein on its part to be performed or complied with, and (*b*) the reasonable fees and expenses and disbursements of your special counsel in connection with the subject matter of this Agreement or any future amendment hereto or waiver hereunder. If, under any applicable law in effect on the closing date or under any retroactive provision of any law subsequently enacted, it shall be determined that any tax is payable in respect of the original issue of any of the Notes, the Company will pay any such tax and penalties, if any, and will indemnify you against and save you harmless from any loss or damage resulting from or arising out of the nonpayment or delay in payment of any such tax. Notwithstanding any other provision contained in this Agreement, the covenants and agreements of the Company in this section 29 shall survive payment of the Notes.

If you are in agreement with the foregoing, please sign the form on the enclosed counterpart of this letter and return such counterpart to the undersigned, whereupon this letter shall become a binding agreement between you and the undersigned.

Very truly yours,

TOPPER CORPORATION

By .... *President*

The foregoing agreement is hereby accepted as of the date first above written.

MORGAN GUARANTY TRUST COMPANY OF NEW YORK
As Agent for an Institutional Investor
[Schmidt & Co. Account No. 288]

By ....
Assistant Vice President

A 3481

EXHIBIT A

TOPPER CORPORATION

7½% CONVERTIBLE SUBORDINATED NOTE DUE SEPTEMBER 30, 1986

(This Note and Common Stock issued upon conversion hereof are transferable only upon the conditions specified in the Purchase Agreements referred to below.)

New York, New York
September 28, 1971

$............

FOR VALUE RECEIVED, the undersigned Topper Corporation (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to the order of .... the principal sum of .... on September 30, 1986, with interest (computed on the basis of a 360-day year—30-day month) on the unpaid balance thereof at the rate of 7½% per annum from the date hereof payable on March 30 and September 30 in each year, commencing with the March 30 or September 30 next following the date hereof, until the principal hereof shall have become due and payable, and thereafter at the rate of 8% per annum on any overdue principal and (to the extent legally enforceable) on any overdue interest until paid.

Payments of both principal and interest are to be made at the principal office of Manufacturers Hanover Trust Co. at New York, New York, in lawful money of the United States of America.

This Note is issued pursuant to, and is entitled to the benefits of, Purchase Agreements dated September 28, 1971, between the Company and various purchasers, and is one of an issue of 7½% Convertible Subordinated Notes due September 30, 1986, aggregating $5,250,000 principal amount, pursuant to such Purchase Agreements. As provided in such Purchase Agreements, this Note is convertible into Common Stock of the Company, is subordinate to Senior Debt (as defined in such Purchase Agreements) and is subject to prepayment, in whole or in part, without premium, as specified in such Purchase Agreements.

As provided in such Purchase Agreements this Note and shares of Common Stock issued upon the conversion hereof may be transferred only upon fulfillment by the Company and the holder hereof of specified conditions (to which the holder hereof, by his acceptance of this Note, agrees to be bound) relating to compliance with the Federal Securities Act of 1933 or any similar Federal statute at the time in force.

In case an Event of Default, as defined in such Purchase Agreements, shall occur and be continuing, the principal of this Note may be declared due and payable in the manner and with the effect provided in such Purchase Agreements.

Topper Corporation

By ....
President

EXHIBIT B

List of Purchasers and Notes to be Purchased

Name and Address of Purchaser	Principal Amount of Notes
MORGAN GUARANTY TRUST COMPANY OF NEW YORK As Agent for an Institutional Investor [Schmidt & Co. Account No. 288] P. O. Box 1479, Church Street Station New York, New York 10008	$3,000,000
CONNECTICUT MUTUAL LIFE INSURANCE COMPANY 140 Garden Street Hartford, Connecticut 06115	$1,000,000
OKONITE POOLED TRUST c/o Mr. Jim Ledbetter CBWL-Hayden, Stone Inc. 767 Fifth Avenue New York, New York 10022	$ 250,000
THE 65 SECURITY PLAN PENSION FUND Att: Mr. Al Bernknopf 13 Astor Place New York, New York 10003	$ 250,000
MASSACHUSETTS STATE CARPENTERS PENSION FUND Att: Mr. Herbert R. Skane 1 Militia Drive Lexington, Massachusetts 02173	$ 250,000
LOCAL 1199 BENEFIT FUND Att: William J. Taylor 310 West 43rd Street New York, New York 10036	$ 250,000
LOCAL 816 LABOR AND MANAGEMENT PENSION TRUST FUND Att: Saul Solomon 265 West 14th Street New York, New York 10011	$ 250,000
Totals	$5,250,000

A 3483

[COMPOSITE CONFORMED COPY]

TOPPER CORPORATION

7½% CONVERTIBLE SUBORDINATED NOTES DUE SEPTEMBER 30, 1986

September 28, 1971

[NAMES AND ADDRESSES OF RESPECTIVE
PURCHASERS APPEAR IN EXHIBIT B]

Dear Sirs:

TOPPER CORPORATION (herein called the "Company"), a Delaware corporation, agrees with you as follows:

1. AUTHORIZATION OF NOTES. The Company has authorized the issue of its 7½% Convertible Subordinated Notes due September 30, 1986, in an aggregate principal amount of $5,250,000, to be dated the closing date hereunder and to be substantially in the form of Exhibit A hereto (herein, together with any notes which may be issued in substitution therefor or replacement thereof, called the "Notes").

2. SALE AND PURCHASE OF NOTES. The Company will sell to you, and, subject to the terms and conditions hereof and in reliance upon the representations and warranties of the Company contained herein, you will purchase from the Company, Notes in the principal amount set opposite your name in Exhibit B hereto, at an aggregate purchase price of 100% of the principal amount of the Notes so purchased.

3. CLOSING. The closing hereunder shall take place at the offices of Messrs. White & Case, 14 Wall Street, New York, New York, at 10:30 a.m. (New York time) on September 28, 1971 and the Company will deliver to you thereat the Notes purchased by you in the form of single Note payable to your order (or to the order of any nominee specified by notice to the Company given by you or your special counsel at least two business days prior to such closing) against payment of the full purchase price of the Notes to be purchased by you in New York Clearing House funds.

4. DEFINITIONS. As used herein, the following terms have the following respective meanings:

4.1. "*Consolidated*", used with reference to Current Assets, Current Liabilities, Funded Debt, Net Tangible Assets and Tangible Net Worth means such respective items of the Company and its Subsidiaries, consolidated in accordance with generally accepted accounting principles *provided* that (*a*) appropriate deductions shall be made for minority interests in Subsidiaries in determining Consolidated Net Earnings, Consolidated Net Tangible Assets and Consolidated Tangible Net Worth, and (*b*) in determining Consolidated Current Assets and Consolidated Current Liabilities there shall be deducted from the Current Assets and Current Liabilities of each Subsidiary amounts thereof equal to the percentage of such Current Assets and Current Liabilities, respectively, which is represented by the percentage of the minority interests, if any, in such Subsidiary.

4.2. *"Current Assets"* means (*i*) cash and cash items in United States currency (or in foreign currency converted at the appropriate exchange rates), (*ii*) accounts receivable payable on demand or within one year, less reserves determined to be sufficient in accordance with generally accepted accounting principles, (*iii*) inventories taken at cost or market, whichever is lower, and (*iv*) such other assets as may properly be classified as current assets in accordance with generally accepted accounting principles.

4.3. *"Current Liabilities"* means all Indebtedness maturing on demand or within one year from the date as of which Current Liabilities are to be determined and not renewable or extendible by the terms thereof at the option of the debtor to a date beyond such year (including, without limitation, amounts payable within such year in respect of the Notes and any other Indebtedness) and such other liabilities as may be properly classified as current liabilities in accordance with generally accepted accounting principles.

4.4. *"Funded Debt"* of any corporation means all Indebtedness of such corporation maturing more than twelve months from the date of determination thereof or directly or indirectly renewable or extendible beyond such twelve months, at the option of the debtor, by its terms or by the terms of any instrument or agreement relating thereto, and all Indebtedness of such corporation incurred under a revolving credit or similar agreement extending for more than twelve months. Each Lease Equivalent to Purchase of a Company or Subsidiary shall constitute Funded Debt of the Company or Subsidiary, as the case may be, (*a*) in an amount equal to the aggregate of all rentals remaining payable thereunder over the term of such lease (other than payments for taxes, insurance, utilities and like items of additional rent and other than rentals payable in less than twelve months from the date of determination) discounted to the date of determination on the basis of the interest factor used in the original calculation of the amount of such rentals, and (*b*) bearing interest at the rate of such interest factor.

4.5. *"Indebtedness"* of any corporation means (*a*) all indebtedness, obligations and liabilities, which in accordance with generally accepted accounting principles would be classified in the accounts of such corporation as a liability, (*b*) all indebtedness, obligations and liabilities secured by any mortgage, pledge or lien existing on property owned subject to such mortgage, pledge or lien whether or not such indebtedness, obligations or liabilities have been assumed, (*c*) all Leases Equivalent to Purchase in an aggregate amount determined in accordance with clause (*a*) of subsection 4.4 but without regard to the exclusion therein provided for rentals payable in less than twelve months, and (*d*) all guaranties (whether by discount or otherwise), endorsements (other than for collection or deposit in the ordinary course of business) and other contingent obligations in respect of, or to purchase or otherwise acquire or became liable upon or to supply or advance funds on account of, Indebtedness of others determined in accordance with the foregoing definition. The amount of any such contingent obligation shall be considered Indebtedness of the contingent obligor equal to the full amount contingently payable by such contingent obligor.

4.6. *"Lease Equivalent to Purchase"* means any lease to which the Company or any Subsidiary is a party as lessee and which (*a*) constitutes the substantial equivalent of a purchase of the property subject to such lease, or (*b*) has an initial term materially less than the useful life of such property and provides that the lessee has the option to renew such lease for the remaining useful life of such property at a rental which at the inception of such lease appears to be substantially less than the fair rental value of such property, or (*c*) provides an option to the lessee to acquire the property subject to such lease at a price which, at the inception of such lease, appears to be substantially less than the probable fair value of such property at the time or times of permitted acquisition by the lessee.

4.7. *"Long-Term Lease"* means any lease of real property or equipment (other than a Lease Equivalent to Purchase and a lease between a Subsidiary and another Subsidiary or the Company) to which the Company or any Subsidiary is a party as lessee, having an initial term (including any provision for renewal at the option or otherwise at the right of the lessor) of three years or longer. *"Rentals"* means all rentals under Long-Term Leases other than payments for taxes, insurance, utilities and like items of additional rent.

4.8. *"Market Price"* of Common Stock shall mean: (*a*) in the event that the Common Stock shall be listed on any national securities exchange, the average closing sale price of such Common Stock on the principal national securities exchange on which it is listed for the ten business days prior to the day on which such market price is to be determined, or (*b*) in the event that the Common Stock shall not be listed on any national securities exchange, the average of the high bid and low asked prices of such Common Stock in the over-the-counter market (*i*) for the ten business days prior to the day on which such market price is to be determined, as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding to its functions in reporting such prices satisfactory to the holders of the Notes) or (*ii*) if no such prices were reported, on the most recent date prior to such day as of which such prices were so reported.

4.9. *"Net Earnings"* of any corporation as applied for any period means the net income (or net deficit, as the case may be) after taxes on income of such corporation for such period, determined in accordance with generally accepted accounting principles, *provided* that net gains or losses in such period from the write-up or write-down of capital assets or on the sale or other disposition, not in the ordinary course of business, of capital assets or on the acquisition or retirement or sale of stock or securities of such corporation shall be excluded.

4.10. *"Net Tangible Assets"* of any corporation means the excess of the book amount of all assets of such corporation other than

(*a*) write-ups subsequent to January 1, 1971 of assets above cost,

(*b*) intangible assets such as good will, trade marks and the excess of cost of business purchased over the net book value of the underlying assets thereof,

(*c*) deferred charges of such corporation, and

(*d*) Restricted Investments

over

all Indebtedness thereof, other than Funded Debt, and all reserves appearing on the liability side of the balance sheet thereof except reserves which in effect are appropriations of earned surplus,

all determined in accordance with generally accepted accounting principles, provided that for such purpose the Company or any Subsidiary having a Lease Equivalent to Purchase shall be deemed to have an asset equal to the amount of Funded Debt represented by such Lease Equivalent to Purchase.

4.11. *"Restricted Investment"* means any direct or indirect investment in stock (including capital contributions) or other securities, any direct or indirect loan or advance, and any other direct or indirect investment, *provided* that such term shall not include the investments permitted by clauses (*a*) through (*e*) of section 20 hereof. The aggregate amount of Restricted Investments at any time outstanding means, without duplication (*i*) the aggregate cost of all such Restricted Investments owned by the Company and its Subsidiaries at the date of determination, plus (*ii*) the amount, if any, by which (*aa*) any losses to the Company and its Subsidiaries resulting from write-downs, write-offs, or liquidations of any such Restricted Investments during the period from the date hereof to the date of determination exceeds (*bb*) any profits to the Company and its Subsidiaries resulting from liquidations of such Restricted Investments during such period.

4.12. *"Subsidiary"* means any corporation of which at least a majority of the voting stock is at the time owned by the Company and/or by one or more Subsidiaries. For the purpose of such definition "voting stock" means capital stock the holders of which are ordinarily and generally, in the absence of contingencies, entitled to vote for a majority of the directors or persons performing similar functions. Notwithstanding the foregoing (*a*) neither De Luxe Toy Company Limited, De Luxe Toy (Nederland) N.V., nor De Luxe Topper Canada Limited, referred to in subsection 5.1, shall constitute a Subsidiary unless and until the particular corporation becomes active or additional investments of any character aggregating at least $50,000 are made therein by the Company and/or Subsidiaries, and (*b*) Topper Toys (Hong Kong) Limited, also referred to in subsection 5.1 shall not constitute a Subsidiary unless and until (*i*) additional investments aggregating at least $250,000 are made therein by the Company and/or Subsidiaries, or (*ii*) the Company shall elect by written notice to the holders of the Notes to declare such corporation a Subsidiary, from and after the date of which notice such corporation shall constitute a Subsidiary for all purposes of this Agreement.

4.13. "*Tangible Net Worth*" of any corporation means its Net Tangible Assets plus the amount of its Funded Debt at the time outstanding.

5. REPRESENTATIONS AND WARRANTIES BY THE COMPANY. The Company represents and warrants that:

5.1. *Organization and Existence, etc.* The Company is a corporation duly organized and validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own its property and to carry on its business as now being conducted, to enter into this Agreement, to issue the Notes as contemplated herein and to carry out the provisions and conditions of this Agreement and of the Notes. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the character of the properties owned and the nature of the activities conducted by it therein make such qualification necessary. Each Subsidiary of the Company is a corporation duly organized and validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own its property and to carry on its business as now conducted and is duly qualified as a foreign corporation and is in good standing in every jurisdiction in which the character of the properties owned and the nature of the activities conducted by it therein make such qualification necessary. All of the outstanding shares of capital stock of each Subsidiary are validly issued and outstanding, fully paid and non-assessable and (except for directors' qualifying shares, to all of which the Company has the beneficial ownership) are held by the Company. De Luxe Toy Company Limited (a United Kingdom corporation) De Luxe Toy (Nederland) N.V. (a Dutch corporation) and De Luxe Topper Canada Limited (an Ontario corporation), each of which are excluded from the definition of Subsidiary by the last sentence of subsection 4.12 hereof, are dormant and none of such corporations has more than a nominal amount of assets. Topper Toys (Hong Kong) Limited (a Hong Kong corporation), similarly excluded from the definition of Subsidiary although the company holds all the capital stock thereof (except for directors' qualifying shares which are beneficially owned by the Company), serves as a purchasing agent and shipment expediter for the Company and its gross assets amount to approximately $100,000.

5.2. *Financial Statements, etc.* The Company has furnished you with a copy of its Registration Statement on Form S-1 under the Securities Act of 1933, effective April 29, 1971. Such Registration Statement did not, at the effective date thereof, include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The Company has furnished you with (*a*) a consolidated balance sheet of the Company and its Subsidiaries, as at December 31, 1970, and a consolidated statement of operations for the fiscal year then ended, certified by Arthur Young & Company, and (*b*) an unaudited consolidated balance sheet of the Company and its Subsidiaries as at June 30, 1971 and a consolidated statement of operations thereof for the six months period then ended. Such financial statements are true and correct and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved. Such balance sheets fairly present the condition of the Company and its Subsidiaries as at the respective dates thereof, and such consolidated statements of operations fairly present the results of operations of the Company and its Subsidiaries for the periods indicated. No dividends or other distributions have been declared or paid on the capital stock of the Company since June 30, 1971. There has been no change in the business or condition (financial or otherwise) of the Company or its Subsidiaries since June 30, 1971 other than as set forth in clause (c) of subsection 5.3 hereof and other than changes in the ordinary course of business, none of which, individually or in the aggregate, has been materially adverse.

5.3. *Capitalization; Indebtedness; etc.* (*a*) The authorized capital stock of the Company consists of 30,000 shares of 5% Cumulative Preferred Stock, par value $100 per share, and 5,000,000 shares of Common Stock, par value $1, per share. The Company's issued capital stock as of June 30, 1971 consisted of 30,000 shares of the 5% Cumulative Preferred Stock, including 10,518 shares held in the treasury, and 3,777,420 shares of the Common Stock, including 50,000 shares held in the treasury. All of the Company's issued capital stock has been duly and validly issued and is fully paid and non-assessable.

(*b*) There are outstanding stock options to purchase not exceeding 170,000 shares of Common Stock granted pursuant to the Company's 1966 and 1969 Qualified Stock Option Plans, as amended. There are outstanding no other options or other rights to subscribe for or acquire capital stock of the Company. The Company has no obligation for the repurchase of any of its Common Stock.

(*c*) No Funded Debt has been incurred by the Company or any Subsidiary since June 30, 1971 except a term loan of $7,000,000 maturing December 31, 1976 from Ford Motor Credit Company made on September 17, 1971.

5.4 *Compliance with Instruments, etc.* Neither the Company nor any Subsidiary is (*a*) in default under any indenture or material contract or agreement to which it is a party, (*b*) in violation of its charter or by-laws or substantial violation of any applicable law, (*c*) in default with respect to any order, writ, injunction or decree of any court, or (*d*) in default under any order, license, regulation or demand of any Federal, state, municipal or other governmental agency, which default or violation in any of the aforesaid cases might have consequences which would materially and adversely affect its respective business or property. There exists no condition, event or act which would constitute upon the happening thereof, or after notice or lapse of time, or both, an Event of Default if the Notes were outstanding on the date hereof.

5.5. *No Materially Adverse Contracts, etc.* Neither the Company nor any Subsidiary is obligated under any contract or agreement or subject to any charter or other corporate restriction which materially and adversely affects its respective business, properties or assets, or financial condition. Neither the execution nor delivery of this Agreement, nor the consummation of the transactions contemplated hereby, nor the fulfillment of the terms hereof, nor compliance with the terms and provisions hereof or of the Notes, will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, the charter or by-laws of the Company or any Subsidiary or of any agreement or instrument under which the Company or any Subsidiary is obligated. The copies which the Company has furnished to you of the Company's charter, by-laws, and loan agreements are complete and accurate and include all amendments thereto.

5.6 *Business.* The Company and each Subsidiary has all necessary franchises, permits, licenses and other rights and privileges to allow them to own their property and to conduct the business in which they are now engaged without any violation of the rights of others and they are duly authorized, qualified and licensed and in good standing under all laws, regulations, authorization or orders of public authorities

as at the respective dates thereof, and such consolidated statements of operations fairly present the results of operations of the Company and its Subsidiaries for the periods indicated. No dividends or other distributions have been declared or paid on the capital stock of the Company since June 30, 1971. There has been no change in the business or condition (financial or otherwise) of the Company or its Subsidiaries since June 30, 1971 other than as set forth in clause (*c*) of subsection 5.3 hereof and other than changes in the ordinary course of business, none of which, individually or in the aggregate, has been materially adverse.

5.3. *Capitalization; Indebtedness; etc.* (*a*) The authorized capital stock of the Company consists of 30,000 shares of 5% Cumulative Preferred Stock, par value $100 per share, and 5,000,000 shares of Common Stock, par value $1, per share. The Company's issued capital stock as of June 30, 1971 consisted of 30,000 shares of the 5% Cumulative Preferred Stock, including 10,548 shares held in the treasury, and 3,777,420 shares of the Common Stock, including 50,000 shares held in the treasury. All of the Company's issued capital stock has been duly and validly issued and is fully paid and non-assessable.

(*b*) There are outstanding stock options to purchase not exceeding 170,[illegible] shares of Common Stock granted pursuant to the Company's 1966 and 1969 Qualified Stock Option Plans, as amended. There are outstanding no other options or other rights to subscribe for or acquire capital stock of the Company. The Company has no obligation for the repurchase of any of its Common Stock.

(*c*) No Funded Debt has been incurred by the Company or any Subsidiary since June 30, 1971 except a term loan of $7,000,000 maturing December 31, 1976 from Ford Motor Credit Company made on September 17, 1971.

5.4 *Compliance with Instruments, etc.* Neither the Company nor any Subsidiary is (*a*) in default under any indenture or material contract or agreement to which it is a party, (*b*) in violation of its charter or by-laws or substantial violation of any applicable law, (*c*) in default with respect to any order, writ, injunction or decree of any court, or (*d*) in default under any order, license, regulation or demand of any Federal, state, municipal or other governmental agency, which default or violation in any of the aforesaid cases might have consequences which would materially and adversely affect its respective business or property. There exists no condition, event or act which would constitute upon the happening thereof, or after notice or lapse of time, or both, an Event of Default if the Notes were outstanding on the date hereof.

5.5. *No Materially Adverse Contracts, etc.* Neither the Company nor any Subsidiary is obligated under any contract or agreement or subject to any charter or other corporate restriction which materially and adversely affects its respective business, properties or assets, or financial condition. Neither the execution nor delivery of this Agreement, nor the consummation of the transactions contemplated hereby, nor the fulfillment of the terms hereof, nor compliance with the terms and provisions hereof or of the Notes, will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, the charter or by-laws of the Company or any Subsidiary or of any agreement or instrument under which the Company or any Subsidiary is obligated. The copies which the Company has furnished to you of the Company's charter, by-laws, and loan agreements are complete and accurate and include all amendments thereto.

5.6 *Business.* The Company and each Subsidiary has all necessary franchises, permits, licenses and other rights and privileges to allow them to own their property and to conduct the business in which they are now engaged without any violation of the rights of others and they are duly authorized, qualified and licensed and in good standing under all laws, regulations, authorization or orders of public authorities

to the extent necessary to the ownership of their property and the carrying on of their business in the places and in the manner presently conducted.

5.7. *Tax Returns and Liabilities.* The Company and each Subsidiary have filed all tax returns which are required to be filed and have paid all taxes as shown on such returns and on all assessments received by them to the extent that such taxes have become due. All Federal income taxes of the Company and its Subsidiaries have been paid or adequate accruals have been set up to cover any such unpaid taxes.

5.8. *Title to Property.* All leases to which the Company or any Subsidiary is a party are in full force and effect, no material default on the part of the Company or any Subsidiary exists thereunder, and the Company and each Subsidiary enjoy peaceful and undisturbed possession of such leaseholds. Except as to property held under lease, the Company and each Subsidiary have good and marketable title in fee to such of their assets as constitute real property and good and merchantable title to all other assets now carried on their books, whether reflected in the aforesaid consolidated balance sheets as at June 30, 1971, or entered on their books as having been acquired since such date, subject to no liens, charges or encumbrances or security titles or interests of any kind except as would be permitted by section 15 hereof.

5.9. *Litigation, etc.* There is no action, suit or proceeding pending or, to the knowledge of the Company's officers, threatened against or affecting the Company or any Subsidiary before any court or administrative agency which might result in any material adverse change in the business or condition (financial or other) of the Company or such Subsidiary or which questions the validity of any action taken or to be taken pursuant to or in connection with this Agreement.

5.10. *Foreign Investments.* The Company is a "United States person" and will not apply the proceeds of the Notes (*i*) to the "acquisition" of "stock" of a "foreign issuer" or "debt obligation" of a "foreign obligor" as such terms are defined in the United States Interest Equalization Tax Act, as extended and amended, or (*ii*) to the making of any foreign direct investment contrary to Executive Order 11387 of the President of the United States and the Foreign Direct Investment Regulations promulgated by the Secretary of Commerce (15 CFR Part 1000).

5.11. *Regulation G.* Neither Company nor any Subsidiary owns any "registered equity security" or any "regulated equity security" within the meaning of Regulation G (12 CFR Part 207) of the Board of Governors of the Federal Reserve System (both herein called a "regulated equity security"). The proceeds of sale of the Notes to you will be used primarily for additional working capital, and none of such proceeds will be used for the purpose of purchasing or carrying any regulated equity security or for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry a regulated equity security or for any other purpose not permitted by said Regulation G.

5.12. *Offering of Notes.* Neither the Company nor any agent acting on its behalf has offered the Notes, or any similar security of the Company, for sale to, or solicited any offers to buy the same from, any person except you, the other purchasers listed in Exhibit B hereto and not more than 30 other institutions; and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act of 1933 as now in force.

6. PURCHASE FOR INVESTMENT. You represent that the Notes covered by this Agreement are being acquired for investment and not with a view to, or for sale in connection with, any distribution of such Notes or of any shares of Common Stock received upon the conversion of such Notes nor with any present intention of distributing or selling the Notes, or such shares of Common Stock, *provided* that, subject to the provisions of this Agreement, the disposition of your property shall always be and remain within your control.

7. CONDITIONS OF PURCHASER'S OBLIGATION. Your obligation to purchase and pay for the Notes to be delivered to you at the closing hereunder is subject to the accuracy of all representations and warranties by the Company contained herein or otherwise made by the Company in writing in connection with the transactions contemplated hereby and to the satisfaction of the following conditions:

7.1. *Opinion of Counsel.* You shall have received from Messrs. White & Case who are acting as counsel for the Company as well as special counsel for you in this transaction, a favorable opinion dated the closing date, in form and substance satisfactory to you, as to: (*a*) the due organization and existence of the Company and each Subsidiary; (*b*) the corporate power of the Company and each Subsidiary to own their property and to carry on their business as now being conducted; (*c*) the due qualification of the Company and each Subsidiary as a foreign corporation to transact business and their good standing in each jurisdiction where the Company or such Subsidiary has any ownership or leasehold interest in real property; (*d*) the due authorization (including any consent of stockholders required by law or by the charter or by-laws of the Company, or otherwise), execution and delivery by the Company, and the validity and binding effect as obligations of the Company, of this Agreement and the Notes then being delivered; (*e*) the due authorizations and reservation for issuance of the shares of Common Stock initially issuable upon conversion of such Notes, and the validity, full payment and non-assessability, when issued pursuant to the terms of such Notes, of shares of Common Stock of the Company to be issued upon converison of such Notes; (*f*) the execution and delivery of this Agreement and the issue and sale of the Notes not conflicting with or resulting in any violation of or default under the charter or by-laws of the Company or of any agreement or instrument known to such counsel to which the Company is subject; (*g*) the authorized capital stock of the Company, including the due and valid issuance, full payment and non-assessability of all issued capital stock; (*h*) the exemption of the sale and delivery of the Notes then being issued to you under the Securities Act of 1933, as amended; (*i*) the absence of any requirement in connection with the sale and delivery of such Notes for the qualification of this Agreement or any indenture in respect of such Notes under the Trust Indenture Act of 1939, as amended; (*j*) the absence of any requirement of authorization or other action by any governmental or regulatory body for the authorization, issuance and sale of the Notes being issued to you; and (*k*) such other matters incident to the matters herein contemplated as you may reasonably request, including the form of all papers and the validity of all proceedings.

7.2. *Representations and Warranties; No Event of Default.* The representations and warranties contained in section 5 hereof shall be true at and as of such closing (except to the extent that the facts upon which such representations are based may have been changed by the transactions contemplated by this Agreement) with the same effect as though such representations and warranties had been made at and as of such time; there shall exist at such time no condition, event or act which constitutes an Event of Default or which, with notice or lapse of time, or both, would constitute such an Event of Default; and the Company shall have delivered to you its certificate dated the closing date and signed on its behalf by its President, a Vice President or its Treasurer to the foregoing effect.

7.3. *Tax Certificate.* The Company shall have delivered to you a certificate of Arthur Young & Company stating that in the opinion of such firm the consolidated balance sheet of the Company and its Subsidiaries as at December 31, 1970, contained adequate reserves for all unpaid Federal income taxes.

7.4. *Proceedings.* All corporate and other proceedings to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to you and your special counsel, and you and your special counsel shall have received all such counterpart originals or certified or other copies of such documents as you or they may reasonably request.

7.5 *Sale of Notes.* The total aggregate principal amount of Notes to be delivered to the other Purchasers shall be delivered to, and paid for by, the other Purchasers.

8. Furnishing of Financial Data and Certificates. The Company will deliver (*x*) to you so long as you shall hold any of the Notes, (*y*) to any assignee of your entire interest in the Notes so long as such assignee holds any thereof, and (*z*) to each holder of 10% or more in principal amount of the Notes at any time outstanding:

(*a*) As soon as practicable, and in any event within 45 days, after the close of each of the first three quarters of each fiscal year of the Company, (*i*) a balance sheet of the Company and a consolidated balance sheet of the Company and its Subsidiaries as of the end of such quarter, and (*ii*) a statement of operations of the Company and a consolidated statement of operations of the Company and its Subsidiaries for the portion of such fiscal year preceding the end of such quarter, each of the foregoing to set forth in comparative form the corresponding figures as of one year prior thereto and to be in reasonable detail and certified (subject to year-end adjustments) by a principal accounting officer of the Company;

(*b*) As soon as practicable, and in any event within 120 days, after the close of each fiscal year of the Company, (*i*) a balance sheet of the Company and consolidating and consolidated balance sheets of the Company and its Subsidiaries as of the end of such fiscal year, and (*ii*) a statement of operations of the Company and consolidating and consolidated statements of operations of the Company and its Subsidiaries for such fiscal year, each of the foregoing to set forth in comparative form the corresponding figures for the Company and the corresponding consolidated figures from the previous year (except that no consolidating figures for 1970 need be furnished) and certified by independent public accountants.

(*c*) Promptly upon receipt thereof, a copy of each report submitted to the Company or any Subsidiary thereof by independent public accountants in connection with each annual audit of its books by such accountants or in connection with interim audits thereof pertaining to any phase of its business which is of material significance to its financial condition;

(*d*) Copies of all such financial statements and reports as the Company shall send to its stockholders and of all regular or periodic reports and registration statements (in the form declared effective) filed by it with the Securities and Exchange Commission or any governmental department, bureau, commission or agency succeeding to the functions of the Securities and Exchange Commission and copies of all original or supplemental listing applications as finally filed with any national securities exchange on which the Company's Common Stock is then or to be listed; and

(*e*) Such other financial data as may be reasonably requested by any person entitled to receive the foregoing.

Each delivery of financial statements required by subdivisions (*a*) and (*b*) above shall be accompanied by a certificate of a principal accounting officer of the Company stating that to the best of his knowledge there exists no condition, event or act which constitutes an Event of Default or which, with notice or lapse of time, or both, would constitute an Event of Default, or, if any such condition, event or act exists, specifying the nature thereof, the period of existence thereof and what action the Company proposes to take with respect thereto; and such certificate accompanying the financial statements required by such subdivision (*b*) shall contain calculations in reasonable detail (classified in accordance with applicable definitions herein) showing at such date the status of the ratios and tests set forth in subclause (*i*) of clause (*c*) of subsection 14.1, and sections 18 and 19 hereof. Each certificate of independent public accountants delivered with the financial statements required by subdivision (*b*) above shall be accompanied by a written statement of such accountants that, in making the audit necessary to the giving of such certificate, they have obtained no knowledge of the existence during the fiscal period under audit of any condition, event or act which constitutes an Event of Default or which, with notice or lapse of time, or both, would constitute such an Event of Default, or, if in the opinion of such accountants there shall exist any such condition, event or act, such statement shall specify the nature thereof. You and each other person entitled to receive the foregoing are hereby authorized to deliver a copy of any financial statement or report delivered under this section 8 to any regulatory body having jurisdiction over you or such other person.

9. INSPECTION. So long as you shall hold any of the Notes, the Company will permit any person designated by you in writing, at your expense, to visit and inspect any of the properties of the Company or any of its Subsidiaries, including their respective books of account, and to discuss their respective affairs, finances and accounts with their respective officers, all at such reasonable times and as often as you may reasonably request. The Company will extend like rights to any then holder (other than a holder whose business is competitive with that of the Company or any Subsidiary) of Notes constituting either an assignee of your entire interest in the Notes or a holder of 10% or more in principal amount of the Notes then outstanding, all at the expense of such holder.

10. EXCHANGE OF NOTES.

10.1. *New Notes.* Subject to section 21, the Company will at any time, at its expense, at the request of the holder of any Note, and upon surrender of such Note for such purpose, issue new Notes in exchange therefor, payable to the order of the holder or such person or persons as may be designated by such holder, dated the date to which interest has been paid on the surrendered Note, in denominations of $1,000 or any multiple thereof, in an aggregate principal amount equal to the unpaid principal amount of such Note and substantially in the form of such Note with appropriate variations.

10.2. *Replacement of Notes.* Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of any note and, in the case of any such loss, theft or destruction, upon delivery of a bond of indemnity satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of such Note, the Company will issue a new Note, of like tenor, in lieu of such lost, stolen, destroyed or mutilated Note.

11. PREPAYMENTS.

11.1. *Fixed Prepayments.* On September 30, 1977 and on September 30, in each year thereafter to and including September 30, 1980, or until the Notes shall be paid in full, the Company will apply to the prepayment of the Notes, at the principal amount thereof, the sum of $525,000, and such principal amounts of the Notes, together with interest thereon to the dates of prepayment, shall become due and payable on such prepayment dates. The Company may receive a credit in respect of any such prepayment equal to the principal amount of any Notes prepaid more than 30 days prior to the particular September 30, pursuant to subsection 11.2 or 11.3 hereof (and not previously credited under this subsection 11.1) or converted more than 30 days prior to the particular September 30 pursuant to section 13 hereof (and not previously so credited) except for conversions under the circumstances referred to in the next succeeding sentence, *provided* that at least thirty days prior to the particular September 30, the Company shall furnish to the holders of the Notes a certificate stating that the Company has elected to take such credit, containing a calculation showing in reasonable detail the basis therefor and the principal amount of the Notes, if any, to be prepaid after giving effect to the credit in question. The Company's obligation with respect to any particular such prepayment shall be reduced to the extent that, prior to the close of business on the day prior to the applicable prepayment date, the particular prepayment date, any holder shall surrender a Note to the Company in the manner provided in subsection 13.1 hereof and request in writing that the portion of such Note to be prepaid under this section 11.1 be converted into Common Stock. Subject to the provisions of the preceding sentence, no prepayment under subsection 11.2 or 11.3 hereof and no conversion of the Notes shall affect the Company's obligation to make prepayments under this subsection 11.1 unless all of the outstanding Notes shall thereby be paid in full.

11.2. *Optional Prepayment without Premium.* On September 30, 1982 and on each September 30 thereafter the Company may at its option apply to the prepayment of the Notes, at the principal amount thereof, a sum (in multiples of $1,000) not exceeding $1,050,000 on any one such date, such option to be non-cumulative.

11.3. *Optional Prepayment with Premium.* The Notes shall be subject to prepayment as a whole at any time on or after September 30, 1973 or from time to time on or after such date in part (in multiples of $1,000), at the option of the Company, at the following applicable percentage of the principal amount so prepaid:

If prepaid during the 12 months beginning September 30,

Year	Percentage	Year	Percentage
1973	106.5%	1980	103.0%
1974	106.0%	1981	102.5%
1975	105.5%	1982	102.0%
1976	105.0%	1983	101.5%
1977	104.5%	1984	101.0%
1978	104.0%	1985	100.5%
1979	103.5%	thereafter	100%

provided that the Company may not make any prepayment of the Notes pursuant to this subsection 11.3 prior to September 30, 1974 unless during the 60 business days immediately preceding the notice of such prepayment there shall have been maintained for a period of at least 30 consecutive business days a current market price of the Common Stock equal to or exceeding 175% of the conversion price (as defined in subsection 13.3 hereof) then in effect, nor prior to September 30, 1976, unless during the 60 business days immediately preceding the notice of such prepayment there shall have been maintained for a period of at least 30 consecutive business days a current market price of the Common Stock equal to or exceeding 150% of the conversion price (as defined in subsection 13.3 hereof) then in effect. For such purpose the daily market price shall be the closing sale price of the Common Stock on the principal national securities exchange on which the Common Stock is then listed, or in the event that the Common Stock shall not be listed on any national securities exchange, the average of the high-bid and the low-asked prices of the Common Stock in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding to its functions in reporting such prices satisfactory to the holders of the Notes) *provided* that if for any day there is no such sale price or no such reported prices, as the case may be, the market price for such day shall be that for the most recent date prior to such day for which there shall have been such sale price or reported prices.

11.4. *Optional Prepayment upon Proposed Merger, etc.* In the event that the Company shall propose to effect a transfer of all or substantially all of its assets or a merger or consolidation which transfer, merger or consolidation would be prohibited by section 22 hereof solely by reason of non-fulfillment of clause (*ii*) thereof and if within twenty days after the Company shall have given to the holders of the Notes written notice of such proposed transaction requesting consents thereto on the part of the holders of the Notes, the requisite consents shall not have been furnished under section 25 hereof, the Notes shall be subject to prepayment as a whole at the principal amount thereof, *provided* that the notice of such prepayment pursuant to subsection 11.5 hereof shall be conditioned upon the fulfillment of such transaction and may be given not less than 20 days prior to the date fixed for prepayment.

11.5. *Notice.* Any call for prepayment of the Notes pursuant to subsection 11.2, 11.3 or 11.4 hereof shall be made by giving written notice to the holders of the Notes to be prepaid not less than 30 (20 in the case of subsection 11.4) days nor more than 60 days prior to the date for prepayment. Notice of call for prepayment having been given as aforesaid, the principal amount to be prepaid, together with interest thereon to the date of prepayment, and together with any applicable premium thereon, shall on the date designated in such notice become due and payable. From and after such date, unless the Company shall default in payment of such principal amount when so due and payable and interest as aforesaid, interest on such principal amount shall cease to accrue.

11.6. *Allocation of Payments.* In the case of all prepayments of less than all of the Notes at the time outstanding, the principal amount to be prepaid shall be allocated (in units of $1,000 or multiples thereof) among the holders of all Notes at the time outstanding, in proportion, as nearly as practicable, to the respective aggregate unpaid principal amounts of the Notes (not theretofore called for prepayment) then held by each, respectively, with adjustments, to the extent practicable, to equalize for any prior unequal prepayments.

11.7. *Notation of Payment, etc.* Except as otherwise provided in section 28 hereof, upon any partial prepayment of any Note, such Note shall be, at the option of the holder thereof, either (*a*) surrendered to the Company in exchange for a new Note in a principal amount equal to the principal amount remaining unpaid on the Note surrendered, and otherwise having the same terms and provisions as the Note surrendered, or (*b*) made available to the Company at the place of payment for notation thereon of the portion of the principal so prepaid.

11.8. *No Reissue of Prepaid or Converted Notes.* In case of the prepayment of any principal amount of any Note or the conversion of any principal amount thereof pursuant to section 13 hereof, no Notes shall be reissued evidencing such prepaid or converted principal amount.

12. SUBORDINATION TO SENIOR DEBT. Anything herein or in any Note to the contrary notwithstanding, the Indebtedness evidenced by the Notes shall be subordinate and junior to the extent set forth in the following paragraphs (*a*) to (*c*), inclusive, to all Indebtedness of the Company for borrowed money not prohibited by section 14 hereof (except for any Indebtedness which, in the instrument evidencing the same or the agreement relating thereto, is expressly deemed not to constitute Senior Debt for purposes of the Notes) whether presently outstanding or created or incurred concurrently with or after the date hereof but prior to the maturity of the Notes by lapse of time, acceleration or otherwise. Such indebtedness of the Company to which the Notes are subordinate or junior is sometimes herein referred to as "Senior Debt".

(*a*) In either of the following cases, namely:

(*i*) upon the maturity of any Senior Debt by lapse of time, acceleration or otherwise, or

(*ii*) during the continuance of any default by the Company in the payment of principal of or interest on any Senior Debt,

all principal of and premium, if any, and interest on all such Senior Debt shall first be paid in full, or payment thereof in cash shall have been provided for, before any payment on account of principal or interest is made upon the Notes.

(*b*) In the event of any insolvency, bankruptcy, liquidation, reorganization or other similar proceedings, or any receivership proceedings in connection therewith, relative to the Company or its creditors or its property, and in the event of any proceedings for voluntary liquidation, dissolution or other winding up of the Company, whether or not involving insolvency or bankruptcy proceedings, then all principal and interest on all Senior Debt shall first be paid in full, or payment thereof in cash shall have been provided for, before any payment on account of principal or interest is made upon the Notes.

(*c*) In any of the proceedings referred to in paragraph (*b*) above, any payment or distribution of any kind or character, whether in cash, property, stock or obligations which may be payable or deliverable in respect of the Notes shall be paid or delivered directly to the holders of Senior Debt for application in payment thereof, unless and until all principal of and premium, if any, and interest on all Senior Debt shall have been paid in full, or payment thereof in cash shall have been provided for, *provided* that (*i*) in the event that payment or delivery of such cash, property, stock or obligations to the holder of any Note is authorized by an order or decree giving effect, and stating in such order or decree that effect is given, to the subordination of the Notes to Senior Debt, and made by a court of competent jurisdiction in a reorganization proceeding under any applicable bankruptcy or reorganization law, no payment or delivery of such cash, property, stock or obligations payable or deliverable with respect to the Notes shall be made to the holders of Senior Debt; and (*ii*) no such delivery shall be made to holders of Senior Debt of stock or obligations which are issued pursuant to reorganization proceedings or dissolution or liquidation proceedings, or upon any merger, consolidation, sale, lease, transfer or other disposal not prohibited by the provisions of this Agreement, by the Company, as reorganized, or by the corporation succeeding to the Company or acquiring its property and assets, if such stock or obligations are subordinate and junior at least to the extent provided in (and governed by terms substantially identical to the provisions of) this section 12 to the payment of all Senior Debt then outstanding; and to the payment of any stock or obligations which are issued in exchange or substitution for any Senior Debt then outstanding.

Subject to the prior payment in full of all Senior Debt, the holders of the Notes shall, to the extent of any payment or distribution to the holders of Senior Debt which would, except for the provisions of this section 12 have been made to the holders of the Notes, be subrogated to the rights of the holders of Senior Debt to receive payments or distributions of assets of the Company applicable to the Senior Debt until the Notes shall be paid in full and no such payments or distributions to the Senior Debt shall, as between the Company, its creditors, other than the holders of Senior Debt, and the holders of the Notes, be deemed to be a payment by the Company to or on account of the Notes. It is understood that the provisions of this section 12 are and are intended solely for the purpose of defining the relative rights of the holders of the Notes, on the one hand, and the holders of Senior Debt, on the other hand, and nothing contained herein is intended to or shall impair, as between the Company, its creditors, other than the holders of Senior Debt, and the holders of the Notes, the obligation of the Company, which is unconditional and absolute, to pay to the holders of the Notes the principal of (and premium, if any) and interest on the Notes as and when the same shall become due and payable in accordance with their terms and without giving effect to this section 12, or to affect the relative rights of the holders of the Notes and creditors of the Company other than the holders of Senior Debt, nor shall anything herein prevent the holders of the Notes from exercising all remedies otherwise permitted by applicable law upon default of the Notes, subject to the rights, if any, under this section 12 of the holders of Senior Debt in respect of cash, property or securities of the Company receivable or received upon the exercise of any such remedy.

13. CONVERSION. The Notes shall be convertible into shares of Common Stock of the Company on the following terms and conditions:

13.1. *Terms of Conversion.* The holder of any Note or Notes shall have the right, at such holder's option, at any time or from time to time prior to the payment of such Note or Notes (except that, in respect of the principal amount of any Note as to which the Company shall have given the notice of prepayment required by subsection 11.5 hereof or the principal amount of any Note being prepaid pursuant to subsection 11.1, such right shall terminate at the close of business on the day prior to the applicable prepayment date, unless the Company shall default in the payment thereof), to convert such Note or Notes, or any portion (in multiples of $1,000) of the principal amount thereof, into such number calculated to the nearest 1/100th of a share (5/1000ths of a share being considered as nearer to the next higher 1/100th of a share) of fully paid and non-assessable shares of Common Stock as is obtained by dividing the principal amount of Notes surrendered for conversion by the conversion price in effect as of the close of business on the date of such surrender, as determined pursuant to the provisions of this section

The holder of any Note desiring to exercise such right of conversion shall, at its option, surrender such Note either at the office of the Company at 167 Trumbull Street, Elizabeth, New Jersey 07206 or at the office of any duly appointed transfer agent for the Company's Common Stock at any time during usual business hours together with written notice stating that such holder elects to convert such Note, or a stated portion of the principal amount thereof or requesting conversion of the portion of the Note to be prepaid pursuant to subsection 11.1 hereof, and if any portion of such Note has been the subject of a call for prepayment pursuant to subsection 11.2, 11.3 or 11.4 hereof which prepayment has not theretofore been made, stating whether such portion shall be included in the portion of the Note designated for conversion. Such notice shall also state the name or names (with addresses) in which the certificate or certificates for Common Stock shall be issued.

13.2. *Effect of Conversion.* As promptly as practicable after the surrender for conversion of any Note, the Company shall deliver or cause to be delivered to or upon the written order of the holder of such Note, certificates representing the number of shares of Common Stock issuable upon such conversion, issued in such name or names as such holder may direct, together with cash payable under subsection 13.5 hereof in respect of any fractional interests in a share of Common Stock issuable upon such conversion and, if only a portion of the principal amount of such Note is converted, a new Note for the unconverted principal amount. Such conversion shall be deemed to have been made as of the close of business on the day of surrender of the Note for conversion, and the rights of the holder of such Note in respect of the principal amount or portion thereof surrendered for conversion shall cease at such time, and the person or persons in whose name or names the certificates for such shares of Common Stock are to be issued shall be treated for all purposes as having become the record holder or holders thereof at such time. If the last day for the exercise of the conversion right is a legal holiday where such Note is to be surrendered for conversion, then such conversion right may be exercised (at the conversion price in effect on such last day) upon the next succeeding day which is not a legal holiday in such location. Each certificate for Common Stock initially issued upon the conversion of any of the Notes shall be stamped or otherwise imprinted with a legend in substantially the following form:

> "The transfer of the shares represented by this certificate is subject to the conditions specified in an Agreement dated September 28, 1971, providing for the sale and purchase of Topper Corporation 7½% Convertible Subordinated Notes due September 30, 1986, and no transfer of such shares shall be valid or effective until such conditions have been fulfilled. Upon the fulfillment of such conditions Topper Corporation has agreed to deliver to the holder hereof a new certificate, not bearing this legend, for the number of shares represented hereby registered in the name of the holder hereof."

Promptly upon the fulfillment of the conditions precedent, provided for in section 24 hereof, to the disposition of any shares of Common Stock issued upon conversion of the Notes the Company will deliver in exchange for the outstanding certificates for such Common Stock, new certificates therefor not bearing the aforsaid legend.

13.3. *Conversion Price and Anti-Dilution Adjustments.* The conversion price in effect as of the close of business on the date of this Agreement shall be $15. Such conversion price shall be subject to adjustment as follows:

(*a*) If and whenever the Company shall issue or sell any shares of its Common Stock (except as provided in paragraph (*d*) of subsection 13.3 hereof) for a consideration per share less than the conversion price in effect immediately prior to the time of such issue or sale, or less than 85% of the Market Price on the date of such issue or sale, then, forthwith upon such issue or sale, the conversion price shall be reduced to the lower of the prices (calculated to the nearest cent) determined as follows:

(*i*) by dividing (*I*) an amount equal to the sum of (*aa*) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the then existing conversion price, and (*bb*) the consideration, if any, received by the Company upon such issue or sale, by (*2*) the total number of shares of Common Stock outstanding immediately after such issue or sale; and

(*ii*) by multiplying the conversion price in effect immediately prior to the time of such issue or sale by a fraction, the numerator of which shall be the sum of (*1*) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the Market Price immediately prior to such issue or sale plus (*2*) the consideration received by the Company upon such issue or sale, and the denominator of which shall be the product of (*3*) the total number of shares of Common Stock outstanding immediately after such issue or sale, multiplied by (*4*) the Market Price immediately prior to such issue or sale.

No adjustment of the conversion price however shall be made in an amount less than $.25 per share but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to $.25 per share or more, *provided* that, upon any adjustment of the conversion price resulting from (*1*) the declaration of a dividend upon, or the making of any distribution in respect of, any stock of the Company payable in Common Stock or any stock or other securities convertible into or exchangeable for Common Stock (such convertible or exchangeable stock or securities being herein called "Convertible Securities"), or (*2*) the reclassification, subdivision or combination of the Common Stock into a greater or smaller number of shares, the foregoing figure of $.25 per share (or such figure as last adjusted) shall be proportionately adjusted to the nearest cent. For the purpose of this paragraph (*a*), the following clauses (*i*) to (*viii*), inclusive, shall also be applicable:

(*i*) In case at any time the Company shall in any manner grant any rights to subscribe for or to purchase, or any options for the purchase of, Common Stock or Convertible Securities, whether or not such rights or options or the right to convert or exchange any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such rights or options or upon conversion or exchange of such Convertible Securities (determined by dividing (*1*) the total amount, if any, received or receivable by the Company as consideration for the granting of such rights or options, plus the minimum aggregate amount of additional consideration payable to the Company upon the exercise of such rights or options, plus, in the case of such Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the conversion or exchange thereof, by (*2*) the total maximum number of shares of Common Stock issuable upon the exercise of such rights or options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such rights or options) shall be less than the conversion price in effect immediately prior to the time of the granting of such rights or options, or less than 85% of the Market Price, determined as of the date of granting such rights or options, as the case may be, then the total maximum number of shares of Common Stock issuable upon the exercise of such rights or options or upon conversion or exchange of the total maximum amount of such Convertible Securities issuable upon the exercise of such rights or options shall (as of the date of granting of such rights or options) be deemed to be outstanding and to have been issued for such price per share. No further adjustments of the conversion price shall be made upon the actual issue of such Common Stock or of such Convertible Securities upon exercise of such rights or options or upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities except as otherwise provided in clause (*iii*) below.

(*ii*) In case the Company shall in any manner issue or sell any Convertible Securities, whether or not the rights to exchange or convert thereunder are immediately exercisable, and the price per share for which Common Stock is issuable upon such conversion or exchange (determined by dividing (*1*) the total amount received or receivable by the Company as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the conversion or exchange thereof, by (*2*) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities) shall be less than the conversion price in effect immediately prior to the time of such issue or sale, or less than 85% of the Market Price, determined as of the date of such issue or sale of such Convertible Securities, as the case may be, then the total maximum number of shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities shall (as of the date of the issue or sale of such Convertible Securities) be deemed to be outstanding and to have been issued for such price per share, *provided* that, except as otherwise specified in clause (*iii*) below, (*aa*) no further adjustments of the conversion price shall be made upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities, and (*bb*) if any such issue or sale of such Convertible Securities is made upon exercise of any rights to subscribe for or to purchase or any option to purchase any such Convertible Securities for which adjustments of the conversion price have been or are to be made pursuant to other provisions of this paragraph (*a*), no further adjustment of the conversion price shall be made by reason of such issue or sale.

(*iii*) Upon the happening of any of the following events, namely, if the purchase price provided for in any rights or options referred to in clause (*i*) above, the additional consideration, if any, payable upon the conversion or exchange of Convertible Securities referred to in clause (*i*) or clause (*ii*) above or the rate at which Convertible Securities referred to in clause (*i*) or clause (*ii*) above are convertible into or exchangeable for Common Stock shall change (other than under or by reason of provisions designed to protect against dilution), the conversion price in effect at the time of such event shall forthwith be readjusted to the conversion price which would have been in effect at such time had such rights, options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold; and on the expiration of any such option or right or the termination of any such right to convert or exchange such Convertible Securities, the conversion price then in effect hereunder shall forthwith be increased to the conversion price which would have been in effect at the time of such expiration or termination had such right, option or Convertible Security never been issued, and the Common Stock issuable thereunder shall no longer be deemed to be outstanding.

(*iv*) In case the Company shall declare a dividend or make any other distribution upon any stock of the Company payable in Common Stock or Convertible Securities, any Common Stock or Convertible Securities, as the case may be, issuable in payment of such dividend or distribution shall be deemed to have been issued or sold without consideration.

(*v*) In case any rights or options to purchase any shares of Common Stock or Convertible Securities shall be issued in connection with the issue or sale of other securities of the Company, together comprising one integral transaction in which no specific consideration is allocated to the rights or options, such rights or options shall be deemed to have been issued without consideration.

(*vi*) In case any shares of Common Stock or Convertible Securities or any rights or options to purchase any such Common Stock or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Company therefor, without deduction of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Company in connection therewith. In case any shares of Common Stock or Convertible Securities or any rights or options to purchase any such Common Stock or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Company shall be deemed to be the lesser of (*aa*) the fair market value on the issue date of the securities so issued by the Company, without deduction of any expenses incurred by the Company in connection therewith, or (*bb*) the fair value of such consideration as determined by the Board of Directors of the Company without deduction of any such expenses. In event of any consolidation or merger of the Company with another corporation in which the Company is not the surviving corporation or in the event of any sale of all or substantially all of the assets of the Company for stock or other securities of any corporation, the Company shall be deemed to have issued a number of shares of its Common Stock for the capital stock of the other corporation outstanding immediately prior to the transaction computed on the basis of the actual exchange ratio on which the transaction was predicated and for a consideration equal to the fair market value on the date of such transaction of such capital stock of the other corporation, and if any such calculation results in adjustment of the conversion price, the determination of the number of shares of Common Stock issuable upon conversion of the Notes immediately prior to such merger, conversion or sale, for the purpose of paragraph (*e*) of this subsection 13.3 shall be made after giving effect to such adjustment of the conversion price; *provided, however,* that the foregoing shall apply only if immediately after such consolidation, merger or sale, less stock of the transferee or surviving corporation in terms of market value is held by the stockholders of such other corporation than is held by the Company's stockholders.

(*vii*) In case the Company shall take a record of the holders of its Common Stock for the purpose of entitling them (*a*) to receive a dividend or other distribution payable in Common Stock or in Convertible Securities, or (*b*) to subscribe for or purchase Common Stock or Convertible Securities, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(*viii*) Disposition after the date of the original issue of the Notes of the first 50,000 aggregate amount of shares (subject to adjustment to reflect any reclassification, subdivision or combination of Common Stock after such date) of Common Stock held by or for the account of the Company shall be considered an issue or sale of Common Stock for the purpose of this paragraph (*a*) and, until so disposed of, such shares shall not be included in determining the shares of Common Stock outstanding at any given time. If and after such 50,000 shares (subject to adjustment as aforesaid) shall have been disposed of, the number of shares of Common Stock outstanding at any given time shall be deemed to include shares owned or held by or for the account of the Company, and the disposition of any such shares shall not be considered an issue or sale of Common Stock for the purposes of this subsection 13.3(*a*).

(*b*) In case the Company shall declare a dividend upon the Common Stock payable otherwise than out of earnings or earned surplus and otherwise than in Common Stock or Convertible Securities, the conversion price in effect immediately prior to the declaration of such dividend shall be reduced by an amount equal, in the case of a dividend in cash, to the amount thereof payable per share of the Common Stock or, in the case of any other dividend, to the fair value thereof per share of the Common Stock as determined by the Board of Directors of the Company. For the purposes of the foregoing, a dividend other than in cash shall be considered payable out of earnings or earned surplus only to the extent that such earnings or earned surplus is charged an amount equal to the fair value of such dividend as determined by the Board of Directors of the Company. Such reductions shall take effect as of the date on which a record is taken for the purpose of such dividend, or, if a record is not taken, the date as of which the holders of Common Stock of record entitled to such dividend are to be determined.

(*c*) In case the Company shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares, the conversion price in effect immediately prior to such subdivision shall be proportionately reduced, and, conversely, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of shares, the conversion price in effect immediately prior to such combination shall be proportionately increased.

(*d*) Anything herein to the contrary notwithstanding, the Company shall not be required to make any adjustment of the conversion price in the case of (*i*) the issue of Common Stock upon the exercise of any of the presently outstanding options, referred to in clause (*b*) of subsection 5.3 hereof, granted under the Company's [illegible] and [illegible] Qualified Stock Option Plans, as amended; (*ii*) the grant to officers or employees of the Company or its Subsidiaries in connection with their employment of options to purchase not exceeding 205,000 shares of Common Stock (subject to proportionate adjustment to reflect any reclassification, subdivision or combination of Common Stock), and the issue of Common Stock upon the exercise of any such options; and (*iii*) the grant of options to officers or employees of the Company or its Subsidiaries in connection with their employment, of options to purchase a number of shares of Common Stock not exceeding (subject to proportionate adjustment as aforesaid) the number of shares subject to any option referred to in the foregoing subclause (*i*) and (*ii*) to the extent that the same shall have terminated without exercise, and the issue of Common Stock upon the exercise of any such options.

(*e*) If any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provision shall be made whereby the holder of any Note shall thereafter have the right to receive, upon the basis and upon the terms and conditions hereof and in lieu of the shares of the Common Stock of the Company immediately theretofore receivable upon conversion, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such Common Stock immediately theretofore receivable upon the conversion of the Notes had such reorganization, reclassification, consolidation, merger or sale not taken place, and in any such case appropriate provisions shall be made with respect to the rights and interests of the holders of the Notes to the end that the provisions hereof (including without limitation provisions for adjustment of the conversion price and of the number of shares issuable upon conversion of the Notes) shall thereafter be applicable, as nearly as may be in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company shall not effect any such consolidation, merger or sale, unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing such assets shall assume by written instrument, executed and mailed or delivered to the holders of the Notes at the last addresses of such holders appearing on the books of the Company, the obligation to deliver to such holders such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holders may be entitled to receive.

(*f*) Upon any adjustment of the conversion price, then in each such case the Company shall give written notice thereof, by first class mail, postage prepaid, addressed to the registered holders of the Notes at the address of each such holder as shown on the books of the Company, which notice shall state the conversion price resulting from such adjustment.

13.4. *Common Stock.* As used herein the term "Common Stock" shall mean and include the Company's Common Stock authorized on the date of the original issue of the Notes and shall also include any capital stock of any class of the Company thereafter authorized which shall not be limited to a fixed sum or percentage in respect of the rights of the holders thereof to participate in dividends and in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company; provided, however, that the shares issuable upon the conversion of the Note or Notes shall include only shares of such class designated in the Company's Certificate of Incorporation as Common Stock on the date of the original issue of the Note or Notes or, in case of any reorganization, reclassification, consolidation, merger or sale of assets of the character referred to in paragraph (*e*) of subsection 13.3 hereof, the stock, security or assets provided for in such paragraph.

13.5. *Payments in Lieu of Fractional Shares; Interest and Dividends.* No fractional shares of stock shall be issued upon the conversion of any Note. The number of shares which shall be issuable upon the conversion of any Note or Notes surrendered for conversion by the same holder shall be computed on the basis of the aggregate principal amount of the Notes so surrendered. If any fractional interest in a share of Common Stock would, except for the provisions of this subsection 13.5, be deliverable upon the conversion of any Note, the Company shall, in lieu of delivering the fractional share therefor, adjust such fractional interest by payment to the holder of such surrendered Note of an amount in cash equal (computed to the nearest cent) to the value of such fractional interest computed on the basis of the Market Price of the Company's Common Stock on the date of surrender of the Note or Notes for conversion. The Company shall pay all interest on the principal amount of any Note surrendered for conversion accrued to the date of such surrender. No adjustment shall be made upon any conversion for any cash dividends on the Common Stock delivered pursuant thereto.

13.6. *Covenants in Respect of Certain Actions.* The Company will at all times reserve and keep available out of its authorized but unissued stock, solely for the purpose of issue upon conversion of the Notes, such number of shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Notes, and will take all such action as may be necessary to assure that such shares may be so issued without violation of any applicable law or regulation and shall be listed within a reasonable time after the date hereof (subject to issuance or notice of issuance) upon each national stock exchange upon which the Common Stock of the Company is then listed. Before taking any action which would cause any adjustment reducing the conversion price below the then par value of the shares of Common Stock, the Company will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock at the conversion price as so adjusted.

13.7. *Taxes.* The issuance of certificates for shares of Common Stock upon conversion shall be made without charge for any tax in respect of such issuance. However, if any such certificate is to be issued in a name other than that of the holder of the converted Notes, the Company shall not be required to issue or deliver any stock unless and until the holder has paid to the Company the amount of any tax which may be payable in respect of any transfer involved in such issuance or shall establish to the satisfaction of the Company that such tax has been paid.

13.8. *Prior Notice of Certain Events.* In case at any time:

(*1*) the Company shall declare to the holders of its Common Stock any cash dividend at a rate in excess of the rate of the last cash dividend theretofore paid;

(*2*) the Company shall declare any dividend upon its Common Stock payable in stock or make any special dividend or other distribution (other than a cash dividend) to the holders of its Common Stock;

(*3*) the Company shall offer for subscription pro rata to the holders of its Common Stock any additional shares of stock of any class or other rights;

(*4*) there shall be any capital reorganization, or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another corporation; or

(*5*) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of said cases, the Company shall give to each holder of Notes (*i*) at least 15 days' prior written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, and (*ii*) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, at least 15 days' prior written notice of the date when the same shall take place. Such notice in accordance with the foregoing clause (*i*) shall also specify, in the case of any such dividend or subscription rights, the date on which the holders of Common Stock shall be entitled thereto, and such notice in accordance with the foregoing clause (*ii*) shall also specify the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, as the case may be.

14. FUNDED DEBT.

14.1. *Funded Debt of the Company.* The Company will not, directly or indirectly, create, incur, assume, guarantee or otherwise become liable with respect to any Funded Debt except

(*a*) the Notes;

(*b*) Funded Debt secured as permitted by and within the limits specified in clause (*e*) of section 15 hereof; and

(*c*) other Funded Debt if,

(*i*) after giving effect thereto and to the receipt of the proceeds thereof and the discharge of any liabilities which will be discharged substantially contemporaneously therewith, Consolidated Net Tangible Assets shall amount to at least 200% of Consolidated Funded Debt, and

(*ii*) the Consolidated Net Earnings accrued in each of any two of the three next preceding fiscal years, determined before taxes on income and interest on Funded Debt accrued during such respective years, shall have amounted to 300% or more of the annual interest charges on Consolidated Funded Debt outstanding after giving effect to the transaction in question.

14.2. *Funded Debt of Subsidiaries.* The Company will not permit any Subsidiary to, directly or indirectly, create, incur, assume, guarantee or otherwise become or be liable with respect to any Funded Debt unless the same (*a*) is owing to the Company or another Subsidiary, or (*b*) is secured as permitted by and within the limits specified in clause (*e*) of section 15 hereof.

15. MORTGAGES, PLEDGES, LEASES EQUIVALENT TO PURCHASE, ETC. The Company will not and will not permit any Subsidiary to, directly or indirectly, at any time create, incur, assume or permit to exist any mortgage, pledge, lien, encumbrance or charge on any property or asset of the Company or any Subsidiary, whether owned at the date hereof or hereafter acquired, or acquire or agree to acquire any property or assets of any character under any conditional sale agreement or any title retention agreement, or enter into or permit to exist any Lease Equivalent to Purchase, except:

(*a*) mortgages, pledges and liens securing Senior Debt;

(*b*) liens for taxes, assessments or governmental charges not at the time due or which are being contested in good faith by appropriate proceedings;

(*c*) other liens, charges and encumbrances incidental to the conduct of its business or the ownership of its properties or assets which are not incurred in connection with the borrowing of money or the obtaining of advances or credit, and which do not in the aggregate materially detract from the value of its properties or assets or materially impair the use thereof in the operation of its business;

(*d*) mortgages, pledges and liens by a Subsidiary to secure obligations of such Subsidiary to the Company or another Subsidiary;

(*e*) mortgages and other liens on, or conditional purchases of, real or personal property hereafter acquired by the Company or any Subsidiary to secure the payment of Indebtedness incurred to finance part of the purchase price of such property, and Leases Equivalent to Purchase of real or personal property hereafter acquired by the Company or any Subsidiary, *provided* that *(i)* each such mortgage, lien, contract of conditional sale or Lease Equivalent to Purchase shall at all times be confined solely to the item of property so acquired, *(ii)* the amount of Indebtedness secured by any such mortgage, lien or contract of conditional sale shall not exceed 66⅔% of the cost of such property or the fair value thereof (in the judgment of the Company's Board of Directors) at the time of acquisition, whichever is less, and *(iii)* the aggregate principal amount of Indebtedness secured or represented by all such mortgages, liens, contracts of conditional sale and Leases Equivalent to Purchase shall not exceed $5,000,000 at any one time outstanding;

(f) presently outstanding conditional purchase contracts relating to moulding equipment not exceeding $132,000 in the aggregate; and

(g) mortgages, pledges and liens by a Subsidiary to secure such Subsidiary's Indebtedness for borrowed money not constituting Funded Debt.

The Company will not and will not permit any Subsidiary to discount or sell with recourse any accounts or notes receivable of the Company or such Subsidiary except that the foregoing shall not prohibit any pledges or assignments permitted by clause *(a)* of this Section 15.

16. DIVIDENDS, STOCK PURCHASES, RESTRICTED INVESTMENTS, ETC. The Company will not directly or indirectly *(a)* declare or pay any dividend on or declare or make any other distribution on account of any shares of any class of capital stock of the Company now or hereafter outstanding, *(b)* redeem, retire, purchase or otherwise acquire any shares of any class of capital stock of the Company now or hereafter outstanding, or permit any Subsidiary to do so, or *(c)* make or permit any Subsidiary to make any Restricted Investment, unless, after giving effect to the proposed action

(i) the sum of *(aa)* the aggregate amount of all such dividends and distributions directly or indirectly declared, paid or made during the period from the date hereof to and including the date of the proposed action, *(bb)* the excess, if any, of (1) the aggregate amount of all sums and property (taken at the book value or market value thereof, whichever is greater) directly or indirectly applied, during such period, to all redemptions, retirements, purchases or other acquisitions by the Company or any of its Subsidiaries of any shares of capital stock of the Company, over (2) the net cash proceeds of all sales by the Company during such period of shares of any class of its capital stock or of any obligations which have been converted into any such shares, plus *(cc)* the aggregate amount of all Restricted Investments owned by the Company and its Subsidiaries at the time of (and after giving effect to the proposed action), would not exceed an amount equal to the Consolidated Net Earnings accrued from January 1, 1972 to the end of the quarterly accounting period immediately prior to the date of such proposed action plus $1,000,000 and

(ii) the ratio set forth in subclause *(i)* of clause *(c)* of subsection 14.1 is satisfied at and as of such time.

Notwithstanding the foregoing, the Company may declare and pay dividends on, and redeem pursuant to presently applicable sinking fund provisions, any shares of its 5% Cumulative Preferred Stock outstanding on the date hereof, *provided* that the amount of all such dividends and redemptions shall be included in any computation under the foregoing clause *(i)*. The amount of any dividend or other distribution or payment in property shall be deemed to be the greater of the market value thereof at the time of distribution or payment or the net book value thereof as at such time. The foregoing provisions shall not restrict or apply to, and there shall not be taken into account in any computation made thereunder, *(x)* any dividend paid or distribution made in shares of stock or rights to purchase shares of stock of the Company, including cash paid in lieu of, or to acquire, fractional shares in connection with the payment or distribution of such dividend, *(y)* any acquisition of shares of stock of the Company in exchange for other shares of stock of the Company, except that any such cash paid to stockholders in connection therewith shall be considered a cash distribution for the purposes of such provisions and computations, or *(z)* any reclassification or change of shares of stock of the Company (whether or not outstanding), whether by way of split-up, combination or otherwise.

17. LONG TERM LEASES. The Company will not and will not permit its Subsidiaries to enter into any Long-Term Lease unless either

(*a*) after giving effect thereto the aggregate annual Rentals under all the outstanding Long-Term Leases do not exceed $2,000,000, or

(*b*) the Consolidated Net Earnings accrued in each of any two of the three next preceding fiscal years, determined before taxes, interest on Funded Debt and Rentals under Long-Term Leases accrued during such respective years, shall have amounted to 250% or more of the sum of the annual interest charges on Funded Debt and the annual Rentals under Long-Term Leases outstanding after giving effect to the transaction in question.

18. CONSOLIDATED WORKING CAPITAL. The Company will not permit the excess of Consolidated Current Assets over Consolidated Current Liabilities at any time to amount to less than $20,000,000. The Company will not permit the ratio of Consolidated Current Assets to Consolidated Current Liabilities to (*a*) amount to less than 200% at the end of any fiscal year, or (*b*) amount to less than 150% at the end of each of the first three quarters in each fiscal year.

19. CONSOLIDATED TANGIBLE NET WORTH. The Company will not permit Consolidated Tangible Net Worth at any time to amount to less than $15,000,000.

20. INVESTMENTS, LOANS, ADVANCES, ETC. The Company will not, and will not permit any Subsidiary to, directly or indirectly, purchase or otherwise acquire or own any stock or securities or make or have outstanding any loans or advances or other investments, except (*a*) stock or securities of the Com- pany if and to the extent, in the case of such acquisition of stock, that the acquisition thereof is permitted by the provisions of section 16 hereof, (*b*) stock or securities of, loans and advances to, and other investments in, a Subsidiary or a corporation which simultaneously therewith becomes a Subsidiary, (*c*) direct obligations of the United States of America, prime commercial paper and certificates of deposit in or bankers acceptances of United States commercial banks having capital resources in excess of $50,000,000, (*d*) stock and securities received in settlement of debts, created in the ordinary course of business, owing to the Company or any Subsidiary and (*e*) the Company's presently outstanding investments in the corporations referred to in the last sentence of subsection 4.12 hereof and investments made hereafter by the Company and/or Subsidiaries aggregating not more than $250,000 in Topper Toys (Hong Kong) Limited, the Hong Kong corporation referred to therein and not more than $50,000 in the other corporations referred to therein.

21. SALE OF INDEBTEDNESS OR STOCK OF SUBSIDIARIES, ETC.

21.1. *Sales.* The Company will not and will not permit any Subsidiary to sell, transfer or otherwise dispose of (except to the Company or a Subsidiary) any Indebtedness of any other Subsidiary or any shares of stock of any other Subsidiary, provided, subject to the provisions of section 22 hereof prohibiting disposition of all or substantially all of the assets of the Company, that all Indebtedness and all shares of stock of any Subsidiary at the time owed to or owned by the Company and/or other Sub- sidiaries may be sold or otherwise disposed of as an entirety for a consideration which, in the judgment of the Company's Board of Directors, represents the fair value of the Indebtedness and shares of stock so sold or otherwise disposed of, if at the time of such sale or other disposition such Subsidiary is not owed and does not own directly or indirectly any Indebtedness or any shares of stock of any other Subsidiary (unless all Indebtedness and shares of stock of such other Subsidiary owed or owned, directly or indirectly, by the Company and all Subsidiaries are simultaneously being disposed of as permitted by this subsection 21.1).

21.2. *Issues by Subsidiaries.* The Company will not permit any Subsidiary to issue or sell (*a*) any share of its capital stock preferred as to dividends or assets except to the Company or another Subsidiary, or (*b*) any shares of any other class of its capital stock to any purchaser other than the Company or another Subsidiary if as a result thereof the corporation in question would cease to constitute a Subsidiary.

22. Sales, Mergers, etc. The Company will not, and will not permit any Subsidiary to, sell, transfer or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge into, any other person, *provided* that the foregoing shall not prohibit (*a*) a Subsidiary from making any such disposition to the Company or another Subsidiary or from consolidating with or merging into another Subsidiary or (if the Company is the surviving corporation) the Company, (*b*) a Subsidiary from selling or otherwise disposing of all or substantially all of its assets subject to the conditions specified in subsection 21.1 hereof with reference to a sale of the stock of such Subsidiary, or (*c*) the Company from transferring all or substantially all of its assets to another corporation in exchange for capital stock of such other corporation or another corporation from consolidating or merging with the Company if (*i*) upon such transfer, consolidation or merger, the payment of the principal and premium, if any, and interest on all of the Notes and the performance of all of the terms, covenants and conditions contained herein and in the Notes, shall be expressly assumed in writing by the transferee corporation or by the corporation surviving such consolidation or merger unless the Company is the surviving corporation, (*ii*) immediately after such transaction, less stock of the transferee or surviving corporation in terms of market value is held by the stockholders of such other corporation than is held by the Company's stockholders, (*iii*) immediately after giving effect thereto there shall not exist any condition or event which constitutes an Event of Default or which, after notice or lapse of time or both, would constitute an Event of Default, and (*iv*) immediately after giving effect thereto the transferee or surviving corporation would be permitted to incur Funded Debt under section 14 hereof.

23. Insurance; Taxes. The Company will maintain or cause to be maintained, with responsible insurers, insurance with respect to its properties and business and the properties and business of its Subsidiaries against such casualties and contingencies and in such types and amounts as, in the judgment of the Company's executive officers, is properly adequate. The Company will pay or cause to be paid all taxes levied upon any of its properties or any of the properties of its Subsidiaries or in respect of its or their franchises or income before the same become delinquent, except that (unless and until foreclosure, distraint, sale or other similar proceedings have been commenced) no such tax need be paid if being contested in good faith and by appropriate proceedings diligently conducted and if such reserve or other appropriate provision, if any, as shall be required by good accounting practice shall have been made therefor.

24. Restrictions on Transferability of Notes and Common Stock issued upon Conversion.

(*a*) The Notes and Common Stock issued upon the conversion of the Notes shall not be transferable except upon the conditions specified in this section 24. The holder of any Note, by acceptance thereof, agrees, prior to any transfer of such Note and prior to the disposition of any shares of Common Stock theretofore acquired upon the conversion thereof to give written notice to the Company expressing such holder's intention to effect such transfer or disposition and describing briefly the proposed manner thereof. Promptly upon receiving such notice, the Company shall present copies thereof to its counsel and to counsel designated by you, and the following provisions shall apply:

(*i*) If in the opinion of each such counsel, the proposed transfer of such Note or disposition of Common Stock issued upon conversion of such Note is exempted from the registration requirements of the Securities Act of 1933 as then in force or any similar federal statute then in force, the Company, as promptly as practicable, shall notify the holder of such opinion, whereupon, such holder shall be entitled to transfer such Note or dispose of such Common Stock, all in accordance with the terms of the notice delivered by such holder to the Company.

(*ii*) If in the opinion of either such counsel the proposed transfer of such Note may not be effected without complying with such registration requirements, such transfer shall not be made. If in the opinion of either such counsel the proposed disposition of Common Stock issued upon conversion of such Note may not be effected without such registration of such Common Stock, the same shall not be disposed of until so registered in accordance with the further provisions of this Section 24.

(*b*) Upon receipt by the Company at any time after January 1, 1972, of

(*i*) written requests from the holders of Notes or Common Stock issued upon conversion thereof representing at least 10% of all Common Stock issued or issuable upon conversion of the Notes and which as determined in accordance with the foregoing procedures may not be disposed of without such registration, stating that the holders wish to dispose of such Common Stock, or

(*ii*) if a registration shall have been previously completed pursuant to requests given under the foregoing clause (*i*), written requests from the holders of Notes or Common Stock issued upon conversion thereof representing at least 10% of the shares of Common Stock issued or issuable upon conversion of the Notes (other than shares theretofore registered pursuant to any provision of this section 24), and which as determined in accordance with the foregoing procedures may not be disposed of without such registration,

the Company will give written notice of such requests to all holders of Notes and Common Stock issued upon conversion thereof (other than the holders making the requests and other than the holders of Common Stock who shall have acquired the same upon disposition pursuant to a registration hereunder or pursuant to a determination under the foregoing procedures that such registration is not required) offering the opportunity during the 20 days next succeeding such notice of inclusion of shares of Common Stock issued or issuable upon conversion of the Notes in the requested registration. The Company shall use its best efforts to file (as soon as practicable after the expiration of the aforesaid 20-day period) and to cause to be made effective a registration statement under the Securities Act of 1933 as then in force or any similar Federal statute then in force relating to the shares for which such registration was first requested and shares with respect to such opportunity of inclusion in the registration has been accepted (but only if under the foregoing procedures it has been determined that such registration is required with respect to such shares) and on terms permitting the disposition of the Common Stock so registered either through an underwritten public offering or dealer conducted public distributions calculated to dispose of all such Common Stock in a single selling effort so far as practicable and in any event within 45 days following the effective date of such registration. Notwithstanding the foregoing the Company shall not be required to undertake any registration under this paragraph (*b*) requested within six months of the effective date of a registration statement with respect to which the holders of Notes or Common Stock issued upon conversion thereof were afforded registration rights in conformity with any provision of this section 24; and the Company shall not be required to undertake any such registration statement which would require audits other than the Company's year-end audit. It is understood that the Company shall not be required to cause to be made effective more than two registrations under this paragraph (*b*) pursuant to the aforesaid provisions. The Company shall bear all expenses of such registrations and, in addition, it will use its best efforts at its expense to qualify the Common Stock so registered for sale under the laws of such states as shall be reasonably designated by the holders thereof.

(c) In case of any proposed registration from time to time of Common Stock other than the Common Stock issued or issuable upon the conversion of the Notes under the Securities Act of 1933 as then in force or any similar Federal statute then in force in connection with an underwritten primary or secondary public offering of Common Stock, the Company will give each holder of Notes or Common Stock issued upon the conversion thereof (other than holders of Common Stock who shall have acquired the same,upon disposition pursuant to a registration hereunder or pursuant to a determination under the foregoing procedures that such registration was not required) at least 15 days' prior written notice of the filing of such proposed registration. If requested by any such holder in writing within 12 days after receipt of any such notice, the Company will use its best efforts at its expense to register all or part of the Common Stock issued or issuable upon the conversion of such holder's Notes (as may be specified in such request but only if under the foregoing procedures it has been determined that such registration is required with respect to such shares) under such Act or statute for sale as part of the underwritten offering in question and from time to time amend or supplement the registration statement and prospectus used in connection therewith if and to the extent and for such period as is necessary in order to comply with such Act or statute, *provided*, that (*i*) in the case of any such proposed registration in connection with an exclusively secondary distribution of Common Stock, the Company shall not be required to use its best efforts to register Common Stock issued or issuable upon the conversion of Notes unless and until each holder of such Common Stock requesting registration thereof shall have made due provision for the payment of its pro rata share of the expenses incurred by the Company in effecting such registration, and (*ii*) in no event shall the Company be required to use its best efforts to register Common Stock issued or issuable upon conversion of Notes as part of such a proposed registration unless so requested to register at least 33,000 shares (subject to proportionate adjustments to reflect any reclassification, subdivision or combination of Common Stock). If in connection with any such proposed registration, the underwriters of such distribution determine that the number of shares which would comprise a successful distribution is less than the total number proposed to be included therein, each holder of Common Stock issued upon conversion of the Notes proposing to sell the same as part of such distribution will accept a diminution of the number of such shares proposed to be sold pro rata with all other persons participating as selling stockholders in the offering, it being understood that if such distribution includes a primary offering by the Company the amount of shares proposed to be sold by the Company need not be reduced.

(*d*) In the event of any registration provided for under this section 24, the Company will indemnify each holder of Common Stock issued upon conversion of Notes and included in such registration and each person who controls any such holder within the meaning of the Securities Act of 1933 as then in force against all losses, claims, damages, liabilities and expenses (under such Act, at common law or otherwise) resulting from any untrue statement or alleged untrue statement of a material fact contained in any registration statement or prospectus or resulting from any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses result from any untrue statement or omission contained in information furnished in writing to the Company by such holder expressly for use therein. If the offering pursuant to any registration provided for under paragraph (*b*) or (*c*) of this section 24 is made through underwriters, the Company agrees to enter into an underwriting agreement in customary form with such underwriters and to indemnify such underwriters and each person who controls any such underwriter within the meaning of the Securities Act of 1933 as then in force to the same extent as hereinbefore provided with respect to indemnification of the holders of the Common Stock issued upon conversion of Notes. In connection with any registration in which a holder is participating, each such holder will furnish to the Company in writing such information as shall be reasonably requested by the Company for use in any such registration statement or prospectus and will indemnify the Company, its directors and officers, and each person, if any, who controls the Company within the meaning of such Act, against all losses, claims, damages, liabilities and expenses resulting from any untrue statement or alleged untrue statement of a material fact or any omission or alleged omission of a material fact required to be stated in the registration statement or prospectus and necessary to make the statements therein not misleading, but only to the extent that such untrue statement or omission is contained in information so furnished in writing by such holder expressly for use therein.

25. WAIVER; AMENDMENTS. Upon the written consent of the holders of at least 66⅔% of the principal amount of the Notes at the time outstanding, compliance with any of the provisions, covenants and conditions set forth in sections 4, 8 and 14 through 23 hereof may be waived, or any of such provisions, covenants or conditions may be modified. No such waiver or modification shall be made under this Agreement which would, without the consent of the holder of each Note affected thereby, reduce the principal of, or premium on, or rate of interest payable on the Notes, or postpone the date fixed for the payment or prepayment of principal of, premium, if any, or any interest on, the Notes, or adversely affect the conversion rights with respect to any Note.

26. DEFAULT. If any of the following events (herein called "Events of Default") shall occur and be continuing:

(*a*) if the Company shall default in the payment of any part of the principal of any Note when the same shall become due and payable, whether at maturity or at a date fixed for prepayment or by acceleration or otherwise; or

(*b*) if the Company shall default in the payment of any installment of interest on any Note for more than 10 days after the same shall become due and payable; or

(*c*) if the Company or any Subsidiary shall default (as principal or guarantor or other surety) either in the payment of the principal of or premium, if any, or interest on any obligation for borrowed money (other than the Notes), or with respect to any of the provisions of any evidence of Indebtedness for borrowed money (other than the Notes), or any agreement relating thereto, and such default shall continue and remain unwaived by the lender for more than the period of grace, if any, therein specified; or

(*d*) if the Company or any Subsidiary shall default in the performance of or compliance with any agreement, condition or term contained in sections 14 to 22 hereof, inclusive; or

(*e*) if the Company or any Subsidiary shall default in the performance of or compliance with any agreement, condition or term contained herein other than those referred to above in this section 26, and such default shall not have been remedied within 30 days after written notice thereof shall have been given to the Company by a holder of any Note; or

(*f*) if any material representation or warranty made in writing by or on behalf of the Company herein or in connection with the transactions contemplated hereby shall prove to have been false or incorrect in any material respect on the date as of which made; or

(*g*) if the Company or any Subsidiary shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts as they become due, or shall file a voluntary petition in bankruptcy, or shall be adjudicated a bankrupt or insolvent, or shall file any petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, dissolution or similar relief under any present or future statute, law or regulation, or shall file any answer admitting the material allegations of a petition filed against the Company or any Subsidiary in any such proceeding, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of the Company or any Subsidiary, or of all or any substantial part of the properties of the Company or any Subsidiary, or the Company or its directors or majority stockholders shall take any action looking to the dissolution or liquidation of the Company; or

(*h*) if, within 60 days after the commencement of any proceeding against the Company or any Subsidiary seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such proceeding shall not have been dismissed or if, within 60 days after the appointment without the consent or acquiescence of the Company or such Subsidiary of any trustee, receiver or liquidator of the Company or any Subsidiary or of all or any substantial part of the properties of the Company or any Subsidiary, such appointment shall not have been vacated; or

(*i*) if a final judgment which, with other outstanding final judgments against the Company and its Subsidiaries, exceeds an aggregate of $50,000 shall be rendered against the Company or any Subsidiary and if within 60 days after entry thereof such judgment shall not have been discharged or execution thereof stayed pending appeal or if within 60 days after the expiration of any such stay such judgment shall not have been discharged;

then and in any such event any holder or holders of 25% or more in principal amount of the Notes at the time outstanding may at any time (unless all defaults theretofore shall have been remedied) at its or

their option, by written notice or notices to the Company, declare all the Notes to be due and payable, whereupon the same shall forthwith mature and become due and payable without presentment, demand, protest or notice, all of which are hereby waived.

27. Remedies on Default, etc. In case any one or more Events of Defaults shall occur and shall not have been waived or cured, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by a suit in equity, action at law or other appropriate proceeding, whether for the collection of amounts due on such Note (by declaration or otherwise), for the specific performance of any agreement contained herein or in such Note, or for an injunction against a violation of any of the terms or provisions hereof or thereof or in aid of the exercise of any power granted hereby or thereby or by law. In case of a default in the payment of any principal of or interest on any Note, the Company will pay to the holder thereof such further amount as shall be sufficient to cover the reasonable cost and expense of collection, including (without limitation) reasonable attorneys' fees. If any holder of any Note shall give any notice or take any other action in respect of a claimed default, the Company will forthwith give written notice thereof to all other holders of the Notes at the time outstanding, describing the notice or action and the nature of the claimed default. No course of dealing and no delay on the part of any holder of any Note in exercising any right shall operate as a waiver thereof or otherwise prejudice such holder's rights. No remedy conferred hereby or by any Note upon any holder thereof shall be exclusive of any other remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise.

28. Place of Payment. So long as you shall hold any of the Notes, the Company will pay the interest thereon and any prepayments of principal thereof (other than prepayments in full) pursuant to section 11 hereof, without any presentment thereof and without notation of such payment being made thereon, notwithstanding any provision to the contrary herein or in the Notes with respect to place of payment, by check duly mailed to you at your office at the address shown at the beginning of this Agreement or in accordance with any unrevoked written direction from you to the Company. You agree that, prior to the sale or transfer of any Note by you, you shall either (*a*) surrender the same to the Company in exchange for a new Note in the principal amount equal to the principal amount remaining unpaid of the Note surrendered and otherwise having the same terms and provisions as the Note surrendered, or (*b*) make a notation thereon of the extent to which any payment has been made on account of the principal thereof and furnish the Company with your certificate stating that such notation has been made. You further agree that you will promptly notify the Company of the name and address of the transferee of such Note if known to you.

29. Expenses. The Company will, whether or not the transactions herein contemplated shall be consummated, pay and save you harmless against liability for the payment of (*a*) all costs and expenses of the issue of the Notes and shares of Common Stock issuable upon conversion thereof (including the payment of any taxes payable with respect to the original issue of the shares of Common Stock issuable upon conversion of the Notes) and of the Company's performance of and compliance with all agreements and conditions contained herein on its part to be performed or complied with, and (*b*) the reasonable fees and expenses and disbursements of your special counsel in connection with the subject matter of this Agreement or any future amendment hereto or waiver hereunder. If, under any applicable law in effect on the closing date or under any retroactive provision of any law subsequently enacted, it shall be determined that any tax is payable in respect of the original issue of any of the Notes, the Company will pay any such tax and penalties, if any, and will indemnify you against and save you harmless from any loss or damage resulting from or rising out of the nonpayment or delay in payment of any such tax. Notwithstanding any other provision contained in this Agreement, the covenants and agreements of the Company in this section 29 shall survive payment of the Notes.

30. SURVIVAL OF AGREEMENTS, ETC. All covenants, agreements, representations and warranties made herein or otherwise in writing in connection with the transactions contemplated hereby shall survive the execution and delivery of this Agreement and of the Notes.

31. PARTIES IN INTEREST. All covenants and agreements in this Agreement contained by or on behalf of either of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto, whether so expressed or not, *provided* that sections 8, 9 and 28 hereof shall inure only to the benefit of the persons therein specified.

32. NOTICES, ETC. All notices, requests, consents and other communications hereunder shall be in writing and shall be mailed by first class registered mail, postage prepaid,

(*a*) if to the Company at 107 Trumbull Street, Elizabeth, New Jersey 07206, Attention of the Treasurer, or at such other address as may have been furnished to you in writing by the Company; or

(*b*) if to you, at your address as set forth at the beginning of this Agreement, or at such other address as may have been furnished to the Company by you in writing; or

(*c*) if to any other holder of any Note, at such address as may have been furnished to the Company in writing by such holder, or, until any other holder furnishes to the Company an address pursuant to this clause (*c*), then to, and at the address of, the last holder of such Note who has so furnished an address to the Company.

Without limiting the generality of the foregoing, the Company, in furnishing notices pursuant to subsections 11.5 hereof and in obtaining consents pursuant to section 25 hereof, may conclusively presume that each Note continues to be held by the original purchaser thereof unless notice given to the Company of the transfer of such Note pursuant to section 28 of this Agreement and that, with respect to any Note so transferred, the last holder thereof who has furnished his address to the Company continues to hold the same.

33. TERM OF CERTAIN COVENANTS. The covenants and agreements contained in sections 8 to 11 hereof, inclusive, sections 14 to 23, inclusive and sections 26 and 27 hereof shall remain in effect only so long as any of the Notes are outstanding, and upon payment in full of the entire principal of (or conversion thereof into Common Stock), premium, if any, and interest on the Notes, such covenants and agreements shall lapse.

34. LAW GOVERNING. This Agreement is being executed and delivered in the State of New York and this Agreement and the Notes shall be construed in accordance with the laws of such State.

35. MODIFICATIONS. The terms and provisions of this Agreement may not be modified or amended except in writing.

36. COUNTERPARTS. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

37. EFFECT OF HEADINGS. The section headings herein are for convenience only and shall not affect the construction hereof.

If you are in agreement with the foregoing, please sign the form on the enclosed counterpart of this letter and return such counterpart to the undersigned, whereupon this letter shall become a binding agreement between you and the undersigned.

Very truly yours,

TOPPER CORPORATION

By DAVID L. DOWNS
Executive Vice President

The foregoing agreement is hereby accepted
as of the date first above written.

[FORMS OF SIGNATURES OF RESPECTIVE
PURCHASERS APPEAR IN ANNEX I]

A 3512

EXHIBIT A

TOPPER CORPORATION

7½% CONVERTIBLE SUBORDINATED NOTE DUE SEPTEMBER 30, 1986

(This Note and Common Stock issued upon conversion hereof are transferable only upon the conditions specified in the Purchase Agreements referred to below.)

New York, New York
[Date]

$............

FOR VALUE RECEIVED, the undersigned TOPPER CORPORATION (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to the order of .... the principal sum of .... on September 30, 1986, with interest (computed on the basis of a 360-day year—30-day month) on the unpaid balance thereof at the rate of 7½% per annum from the date hereof payable on March 30 and September 30 in each year, commencing with the March 30 or September 30 next following the date hereof, until the principal hereof shall have become due and payable, and thereafter at the rate of 8% per annum on any overdue principal and (to the extent legally enforceable) on any overdue interest until paid.

Payments of both principal and interest are to be made at the principal office of MANUFACTURERS HANOVER TRUST COMPANY at New York, New York, in lawful money of the United States of America.

This Note is issued pursuant to, and is entitled to the benefits of, Purchase Agreements dated September 28, 1971, between the Company and various purchasers, and is one of an issue of 7½% Convertible Subordinated Notes due September 30, 1986, aggregating $5,250,000 principal amount, pursuant to such Purchase Agreements. As provided in such Purchase Agreements, this Note is convertible into Common Stock of the Company, is subordinate to Senior Debt (as defined in such Purchase Agreements) and is subject to prepayment, in whole or in part, without premium, as specified in such Purchase Agreements.

As provided in such Purchase Agreements this Note and shares of Common Stock issued upon the conversion hereof may be transferred only upon fulfillment by the Company and the holder hereof of specified conditions (to which the holder hereof, by his acceptance of this Note, agrees to be bound) relating to compliance with the Federal Securities Act of 1933 or any similar Federal statute at the time in force.

In case an Event of Default, as defined in such Purchase Agreements, shall occur and be continuing, the principal of this Note may be declared due and payable in the manner and with the effect provided in such Purchase Agreements.

TOPPER CORPORATION

By ....
President

EXHIBIT B

List of Purchasers and Notes to be Purchased

Name and Address of Purchaser	Principal Amount of Notes
Morgan Guaranty Trust Company of New York As Agent for an Institutional Investor [Schmidt & Co. Account No. 288] P. O. Box 1479, Church Street Station New York, New York 10008	$3,000,000
Connecticut Mutual Life Insurance Company 140 Garden Street Hartford, Connecticut 06115	$1,000,000
Okonite Pooled Trust c/o Mr. Jim Ledbetter CBWL-Hayden, Stone Inc. 767 Fifth Avenue New York, New York 10022	$ 250,000
The 65 Security Plan Pension Fund Att: Mr. Al Bernknopf 13 Astor Place New York, New York 10003	$ 250,000
Massachusetts State Carpenters Pension Fund Att: Mr. Herbert R. Skane 1 Militia Drive Lexington, Massachusetts 02173	$ 250,000
Local 1199 Benefit Fund Att: William J. Taylor 310 West 43rd Street New York, New York 10036	$ 250,000
Local 816 Labor and Management Pension Trust Fund Att: Saul Solomon 205 West 14th Street New York, New York 10011	$ 250,000
Totals	$5,250,000

ANNEX I

[COMPOSITE CONFORMED COPIES ONLY]

Forms of Signatures of Purchasers

Morgan Guaranty Trust Company of New York
As Agent for an Institutional Investor
[Schmidt & Co. Account No. 288]

By Williams R. Selkirk

Connecticut Mutual Life Insurance Company

By Gaylord C. Weir
Vice President

CBWL-Hayden, Stone Inc.
as agent for Local 816 Labor and
Management Pension Trust Fund

By Milton B. Rubin
Second Vice President

CBWL-Hayden, Stone Inc.
as agent for Massachusetts State
Carpenters Pension Fund

By Milton B. Rubin
Second Vice President

CBWL-Hayden, Stone Inc.
as agent for Okonite Pooled Trust

By Francis J. Byrnes

The 65 Security Plan Pension Fund

By Al Bernknopf
Secretary Treasurer

Local 1199 Benefit Fund

By William J. Taylor
Secretary-Treasurer

PX 1370
CBX 2

CBX: **A 3515**

CBX 2

PX 1370
CBX 2

~~CBX 2~~
~~PX [illegible]~~

Memorandum to the Committee on Finance September 2, 1971

UNITED STATES STEEL AND CARNEGIE PENSION FUND

GROUP TRUST

Re: Topper Corporation
7-1/2% Subordinated Convertible Debentures due 1986.

[illegible]
DEPT. [illegible]
DATE 6-13-[illegible]

Recommendation: CBWL-Hayden Stone, which has two directors on the Board of this company, is planning $7.0 million of financing for this company to provide funds for expansion and to repay short-term bank borrowings. This will take the form of a 15-year 7-1/2% subordinated debenture which will be convertible into common shares at the present market of 15.

We are offered $3.0 million of the subordinated convertible debentures at par, which after conversion would provide a 4.7% equity interest. Connecticut Mutual has recommended to its Finance Committee a participation of $1.0 - $2.0 million and Princeton University is considering a $1.0 million investment.

We recommend purchase of $3.0 million of the subordinated convertible debentures.

Comment:

Topper Corporation, with sales of about $70.0 million, has shown consistent improvement in revenues, net income and financial position since its repurchase by present management from Philadelphia & Reading Corp. in 1965. The company is now one of the five largest toy companies and has a broad line of products which include dolls, metal trucks, robots, toy appliances, racing cars and pre-school educational toys recently developed for the "Sesame Street" children's television program. An increasing percentage of volume is in lower-priced, less seasonal items with approximately 60% of present sales coming from product categories which retail for under $2.00. Over the past decade, Topper's dependence upon the Christmas Season has been reduced markedly and this trend is expected to continue aided in part by the additional stability of the "Sesame Street" line, whose revenues are projected to increase from $7.0 million this year to $20.0 million in 1971.

Glover Johnson, a partner of White & Case, has been a director of the company for over five years and he approached us regarding a financing for the company several months ago. He has worked closely with management and regards its competence and integrity quite highly. We have visited management on three occasions, including an all-day tour of its Elizabeth, N.J. production facilities, and it has also impressed us with its depth and business judgment. While product life, for many individual toys is short, Topper concentrates on non-novelty, stable, growing broad market categories such as dolls or trucks to minimize these risks. The company engages in extensive market research on new toys and relies heavily upon television

Topper Corporation September 2, 1971

advertising to create consumer demand. Management is noted, by the retail trade and its banks, for its cost controls and production capabilities and does not commit large capital investments for tool and molds until order trends are clear. Accordingly, while annual results can vary with success of new lines, the high profitability of the business, coupled with good investment and inventory controls should enable the company to participate fully in expected strong growth of the industry whose sales have increased from $800 million in 1960, to $2.2 billion currently.

Topper's management believes that it is entering a period of rapid growth and is estimating that fully-diluted earnings per share will rise from about 80¢ in 1971 to $1.65 next year and reach $3.25 by 1975. As indicated on the attached Exhibit, the company appears an adequate credit risk with respect to long-term debt as a percentage of capitalization, coverage of fixed charges by net income and net working capital per $1,000 of debt and capitalized leases. The provisions of the debentures are still subject to negotiation but they will be fully protected against dilution, have good call protection, a sinking fund which will retire the issue by maturity and have reasonable restrictions with regard to the issuance of additional debt.

Our retail trade and banking checks have been favorable and this issue provides us the opportunity to obtain an interesting, though admittedly offbeat, participation in a seemingly well-managed company in a growing phase of the economy. Accordingly, it is recommended that we purchase $3.0 million of the Topper convertible debentures in view of the high expected payoff, if the company is successful in quadrupling earnings per share in the next four years and increasing stability of the toy industry and of Topper, in particular.

Henry L. Thompson

Henry L. Thompson

Encl.: Exhibit

EXHIBIT

A 3517

September 2, 1971

Topper Corporation

Pertinent Statistics:

Current Price:	$15	Indicated Dividend:	None
1971 Price Range:	20 - 5	Yield:	None
Actual 1970 Earnings:	0.51	Price-Earnings Ratio:	29.4 x
Estimated 1971 Earnings:	0.85	Price-Earnings Ratio:	17.6 x

Balance Sheet Data (In millions)

	6/30/71 Amount	Pro Forma 6/30/71 for $7.0 mm Ford Credit Issue & $7.0 mm Convertible	Estimated Pro Forma After Financing 12/31/71
Cash:	$ 2.3	$ 2.3	$ 5.8
Accounts Receivable:	29.1	29.1	27.5
Inventories:	8.5	8.5	6.6
Other:	3.3	3.3	1.0
Current Assets:	$ 43.2	$ 43.2	$40.9
Current Liabilities:	31.8	17.8	9.1
	$ 11.4	$ 25.4	$31.8
Capitalized Annual Rents of $830,000 x 10:	$ 8.3	$ 8.3	$ 8.3
Long-term debt:	0.1	7.1	7.1
Convertible Debentures:	-	7.0	7.0
Shareholder Equity:	17.7	17.7	20.0
	$ 26.1	$ 40.1	$42.4

Per $1,000 Debt & Capitalized Rents:

Net Working Capital:	$1,357	$1,133	$1,420
Net Tangible Assets:	3,178	1,817	2,103
Market Value Equity @ $15/sh.	6,296	2,529	2,529

Pre-Tax Interest Coverage: Latest 12 months through 3/31/71: 3.8x (a)
Estimated 12/31/71 after financings: 3.9x

(a) As computed by management.

H.L.T.

A 3518

Topper Corporation

Operating Statistics
(000 omitted)

	Years Ended December 31st				
	1968	1969	1970	1971(E)	1972(E)
Net Sales	$ 35,036	$ 52,723	$ 63,935	$ 70,000	$ 78,000
Cost of Goods Sold	23,845	35,755	43,702	41,370	42,831
Gross Margin	$ 11,191	$ 17,967	$ 20,233	$ 28,630	$ 35,169
% of Net Sales	31.9%	33.4%	31.6%	40.9%	45.1%
Depreciation	N.A.	N.A.	N.A.	$ 3,100	$ 2,550
Selling & Advertising	$ 5,525	$ 4,837	$ 4,849	$ 12,270	$ 13,000
General & Administrative	3,850	8,854	9,820	3,562	3,605
Interest & Other Oper. Expenses	742	1,560	2,636	2,200	3,655
Subtotal:	$ 10,117	$ 15,251	$ 17,305	$ 21,132	$ 22,810
Pretax profits	$ 1,074	$ 2,716	$ 2,927	$ 7,628	$ 12,159
Pretax profit margin	3.1%	5.1%	4.6%	10.9%	15.6%
Net Income	$ 507	$ 1,202	$ 1,464	$ 3,210	$ 6,323
Per Share from Continuing oper.	$ 0.18	$ 0.51	$ 0.51	$ 0.85	$ 1.65
Non-recurring loss from discontinued operation	-	-	$ (0.33)	-	-
Net Income per share	$ 0.18	$ 0.51	$ 0.18	$ 0.85	$ 1.65

- Not Available but included as part of cost of goods sold.

) - Estimated by management.

H.L.T.
September 2, 1971

A 3519

Topper Corporation

Operating Statistics
(000 omitted)

	Years Ended December 31st				
	1968	1969	1970	1971(E)	1972(E
Net Sales	$ 35,036	$ 52,723	$ 63,935	$ 70,000	$ 78,0
Cost of Goods Sold	23,845	34,755	43,702	41,370	42,83
Gross Margin	$ 11,191	$ 17,968	$ 20,233	$ 28,630	$ 35,16
% of Net Sales	31.9%	33.4%	31.6%	40.9%	45.1
Depreciation	N.A.	N.A.	N.A.	$ 3,100	$ 2,55
Selling & Advertising	$ 5,525	$ 4,837	$ 4,849	$ 12,270	$ 13,00
General & Administrative	3,850	8,854	9,820	3,562	3,605
Interest & Other Oper. Expenses	742	1,560	2,636	2,200	3,65
Subtotal:	$ 10,117	$ 15,251	$ 17,305	$ 21,132	$ 22,81
Pretax profits	$ 1,074	$ 2,716	$ 2,927	$ 7,628	$ 12,15
Pretax profit margin	3.1%	5.1%	4.6%	10.9%	15.6%
Net Income	$ 507	$ 1,282	$ 1,464	$ 3,210	$ 6,32
Per Share from Continuing oper.	$ 0.18	$ 0.51	$ 0.51	$ 0.85	$ 1.65
Non-recurring loss from discontinued operation	-	-	$ (0.33)	-	-
Net Income per share	$ 0.18	$ 0.51	$ 0.18	$ 0.85	$ 1.65

- Not Available but included as part of cost of goods sold.

- Estimated by management.

N.L.T.
September 2, 1971

Topper Corp.

PX 1511

8/4/71

CBX 3

A 3520

60% of sales under $2.00. More stable than higher priced items.
Want piece of Christmas action but without risk.

Got $100 mm in present plant from $65 mm. Pick up $12 mm in pretax profit.

35 mm	sales	
	17.18 mm	labor & materials
	2½ "	overhead
23	2½ "	advertising
12		

1.2 mm of tooling expenses out next year predev. Go up $100m annually thereafter. Plant very old & leased. Machines standard but molds specifically designed. Little internal investment

Sesame Street < $7 mm — on allocation this year. Kresge screaming for more. $5.5 mm customer. Hold back $1 mm, sell $6 mm

4 year contract

10% [illegible]

[illegible] split profits Do $20 mm next year.

Telephone 120 words - 3 letters Sell for $6. $9-10 > 54% [illegible] at retail [illegible] 7-11 [illegible]

Walking letters

Big Bird > {Big Noses / Sunny face}

Puzzles Cookie eater —

Drum majorette

Wedding parade

Trucks with key gun

football basketball game —

Sunday parts 800M units @ $8.50 Could go to 1.0 units. Hot item

Drug - drugs - robots [illegible] items. Television this week

Super[illegible] — 3 mm has no accident. Stable. 21¢ safety feature

A 3521

[illegible] – not a clear [illegible] features.

Johnny Lightning — 1 3.0. Estimated going out of favor. Should come back.

Strategy

Review competitive products. Add imaginative twist. Produce cheaply. 45% in Far East. Key parts made here & 80-100 mm in tools, dies. Limit production until it is a sure hit. Order only lead items. All computerized. Hold down inventory & do not make overruns. Phase in production when lead items out of stock. Disaster 4 yrs ago. Add expenditures — shift from one product or other. Get initial volume at trade show to breakeven. Do not tell sales people not going to projections < [illegible]
Breakeven about half

Give key employees stock {
1 Orenstein
Hummer – #2 man
Dorns – finance – corp. devel.
Amata – prod.
Rose – finance
Jones – marketing

CBW – < Biggest holding
of Bernard's Weill

Previous difficulties < charge line & distribution < 500-1000 accts
under 200 ...
bad debt
Mattel move but beat bushes. Strong arm dealers. Trader wants good number. 2 Co.

A. 3522

PX 1372

PX 1372
CBX 4

Memorandum to Mr. Hole

August 5, 1971

ID.
DATE
6-13-72

Re: Topper Corporation

(All-day field trip with Henry Orenstein, President and other senior management officials)

My emphasis throughout the day was to determine whether the toy industry is a suitable investment area for the Pension Fund, and thus I spent most of my time trying to find out what might go wrong in Topper's growth pattern. Both Mr. Orenstein and Mr. Rose, the Financial Vice President, in congtrast, commented that everyone else who has visited the company recently has spent virtually his whole time reviewing the payoff potential if everything goes right. On balance, while Topper must continuously make changes in its product line within a standard framework of dolls, trucks, etc., the company seems to have more than average stability for the industry as 60% of its approximate $65 million of sales now comes from lower priced "bread and butter" items that have less of a seasonal or fad element. Moreover, larger toy companies such as Topper are able to adjust promotion to consumer response much easier than smaller, family-dominated concerns and thereby limit their exposure to any given product. For this reason, I believe that a large Pension such as ours can afford to have a participation in this industry when the risk-reward ratio seems attractive.

I began this trip at Topper's New York showroom where Mr. Orenstein reviewed the company's product line, including its new Sesame Street toys as well as its other products which include Suzy Homemaker cooking appliances, Johnny Lightning Racing Cars, the Smarty-Pants and Dawn dolls, Ding-a-Ling Robots and Zoomer Boomer Moto Trucks. I was quite impressed with the company's originality in its products and its ability to add a new dimension to an old idea to provide retail excitement. For instanc the Zoomer-Boomer line is based on a large key that winds many interesting little trucks and cars so that the child has an unusual way of starting motion as well as the pleasure of seeing the toy move. The Smarty-Pants Doll responds vocally to touch and Mr. Orenste insisted that I try it to be sure that I got the full feel of his product.

Many of the Topper toys have accessories such as clothes for Dawn or the li is designed in such a way that a small initial investment in one Ding-a-Ling Robot and power-pack can be added to with small incremental expenditures over a period of time. The company has given considerable effort to insuring the safety of its Suzy Homemaker cooking line, and the oven cannot be opened until the temperature drops below 140°. Mr. Orenstein said that there has never been an accident because of heating with this product in its estimated 5-million hours of use.

All the senior officers of the company have substantial stock positions and appear to be working very hard to make the business a success. In fact, Mr. Jones who recently joined Topper after being associated with Mattel, gave up a $150,000 a year consulting practice to come with the company. Likewise, David Downs, who was a Vice President of Manufacturers-Hanover and whom I know socially, left an attractive job to come with Topper a few years ago. Mr. Orenstein is involved in most important aspects c business, but it does not appear to be a one-man operation. His successor - he looks to in his early 60's - will probably be Albert Hammer (whom I did not meet), but Jack Jones in my opinion is perfectly capable of running the company so that there appears to be e management depth -notwithstanding Mr. Orenstein's present importance to the business.

We discussed at some length, how a company such as Topper protects itself against product disasters and insures that one bad year will not doom the operation. The company normally sticks to well-established product categories such as dolls where it attempts to analyze the market in such a way that it will provide novelty and greater play value per dollar of selling price than its competitors. All products are pre-tested with consumers and I was shown market reports both on the current lines and next year's introductions which are top-secret. After the screening process, the management then invests $80,000 - $100,000 in molds, to produce a sample line of products which are shown at the Toy Fair in the Spring. The company is willing to lose this small amount but in fact, it had a good success ratio in its new products. Management uses the technique of allowing a child to keep only one toy after he has played with it as part of a market research test. Children are keen observers and usually sure guides in such tests when the company uses products of known selling ability as standards.

After the Toy Fair, the company's marketing personnel makes three sales estimates which indicate expected potential, minimum potential and realistic maximum sales. Normally, a company which is established such as Topper can sell at least 300,000 items of a new product on an initial basis at the Toy Fair. Even so, management does not commit for large amounts until it has obtained a consumer feedback and it monitors its inventory of parts closely so that only long lead items are stockpiled. Profitability is quite high so that the breakeven point on a new product is fairly low so long as the company does not over-order parts. I reviewed the computerized accounting materials with the Financial Vice President at some length and was quite impressed with the sophistication and type of controls. The molds are the key equipment for new toys and their cost is small in relation to the standardized machinery which the company has used for many years in production.

I toured the company's Elizabeth City plant with Mr. Cassata, the Senior Vice President - Manufacturing, and my only real negative on the company is that production facilities seem quite old though well-maintained. Labor, which includes a high proportion of minority groups, works on an incentive basis and averages about $2.25 per hour. Because of the company's elaborate inventory control system, lines do not run out of parts and production workers are permitted to be shifted to the making of a different product under the Union contract which expires in 1973 even if management decides to curtail an item. The company will probably remain in the Newark area as it relies on a pool of low-scale employees as its source of labor. Turnover on the two day shifts is unusually small and is said to be under 5% a year. There appears to be good esprit-de-corps throughout the organization and in every instance where we randomly checked the output, the particular assembly line was ahead of schedule.

Topper is currently at an annual sales rate of $65 million and believes that it will be able to reach $100 million in sales by 1974. On this basis, the company projects that its earnings will rise from about 80¢ this year to $3.00+ in 1974. The incremental $35 million revenues has only about $17-$18 million of contract labor and material costs associated with it. Advertising and overhead will probably take up another $6 million in total so that management expects to add $11 -$12 million to pre-tax profits if its volume level is attained. In addition, there will be a non-recurring $1.3 million addition to pre-tax net in 1972, because of a depreciation reduction associated with the re-purchase of the company from Philadelphi Reading.

The most impressive part of the business is the company's Sesame Street line of toys which will account for about $7 million of 1971 revenues. This line is now in allocation and Kresge's which is a $5.5 million customer, is screaming for more telephones and Walking Tops. Management predicts that volume of this line will account for over $20 million in 1972, and that it and Smarty-Pants which is sold for $8.50 per doll, will contribute the bulk of the expected gains in revenues over the next two years. 800,000 Smarty-Pants have been ordered this year and this seems to be the doll of the season. With regard to Sesame Street, the company has a four-year contract under which a 10% allocation of Topper's total overhead is deducted and profits are the split 50-50 with the management of the children's program. Mr. Orenstein believes that the rise in volume of his company shares on the American Exchange is associated with buyers who have viewed the current showings of Sesame Street, who in turn buy the stock for their own account as they did with Mattel shares a number of years ago.

I spent part of yesterday afternoon reviewing Ding-a-Ling commercials for this Saturday at Dancer-Fitzgerald with Mr. Orenstein and others. Topper will spend over $10 million on advertising this year and is Dancer-Fitzgerald's most important account. The company has first call on creative talent in that Agency and I was impressed with the Ding-a-Ling commercials, as well as the viewing of the commercial on Smarty-Pants. The company commits for time and thus can shuffle commercials within given time slots to adjust to consumer reaction for individual products. On this basis, there is much less vulnerability than in the typical toy operation which has a smaller product basis than Topper's.

Topper has been followed closely by CBWL-Hayden Stone. It is said to be the largest personal holding of Roger Berlind and Sanford Weil and the company has placed the shares extensively with its clients. Jay Inglis who was formerly with Hayden-Stone follows the company and seemed to have an excellent rapport with Mr. Orenstein. In the past, I have never regarded CBWL highly but I was impressed with the job it has done in obtaining equity of $6 million for Topper earlier this year and the soundness of its approach in setting up the capitalization of the company. Unlike some of our private placement companies, management has not shied away from dilution where it is in the best interest of running the business and thus CBWL has also been able to obtain a $7 million senior debt commitment from Ford Credit which will be consummated later this month. Conn. Mutual is likely to take $1 million of the planned $5 million Convertible 7½% Debenture offering.

This seems a reasonable deal for us where we have some protection and a full convertibility in the event the company lives up to its projections. At present, we can obtain a participation of $3 million in the issue and Jay Inglis indicated that our conversion price might even be under the market if the stock continues to rise. If you concur, I would like to do this deal.

Henry L. Thompson

CDX 411

A 3525

1373
CDX 4A

Memorandum to Mr. Hole

August 10, 1971

Re: Topper Corporation

(Telephone conversation with William Schwartz, Vice President-
Burnham & Co.)

Bill Schwartz has a very close relationship with Mattel & Co. and I do not know to what extent this influences the degree of cooperation from Topper's management or his non-objectivity on this situation. He indicated that 5 or 6 potential investors had consulted him about the $5 million Topper private placement and that his advice is to avoid it. Mr. Schwartz indicated that the life cycle for any toy product is fairly short and that Topper is essentially a "me-too" company. Thus its line comes in after a competitor's has made a success and usually has a shorter life-span than the original item. He did indicate that management is "extremely competent in many ways and has unusual creativity". He rates the company poorly with regard to its candidness to the investment community but I know that Mr. Orenstein believes that information given to Burnham is passed on directly to Mattel. Mr. Schwartz cited one instance last September when Topper's disastrous entry into the children's cosmetic field was in the process of being discontinued and management told him that everything was going according to plan. Here again, I am not sure that this ~~may not be~~ is a fair judgment on the company's integrity as this fiasco was a sore spot with Mr. Rose whom I believe never wanted to go into this line in the first place but was unwisely overruled.

In the opinion of Burnham, one should only go into the situation if he has a fire-escape nearby and thus he concurs fully with your point of view that we must be able to have a quick registration if we do the deal. Notwithstanding his general negativeness, Schwartz considers this an interesting speculation and aside from the "me-too" aspect of the product line, his only other business criticism related to Topper's high advertising budget in relation to sales. He considers it a "high roller" but I believe this is somewhat harsh in view of the company's ability to interchange individual product commercials within purchased time slots.

Pete Harrison had a check with the product development manager of Louis Marx who indicated that the toy business is even worse than the garment business. He also indicated that there are several potential competitors to Sesame Street and that Topper does not have an exclusive on the Sesame Street line as was the impression given to me when I visited Mr. Orenstein. Pete's source further said that there are some licensees of toy products who refuse to do business with Topper. Accordingly, he is apparently quite negative on this company although the relations between Mr. Orenstein and Mr. Marx are none too good. Rather than call off our meeting with Mr. Rose and Mr. Downs of Topper on Friday, I am in the process of checking with the toy buyer at J.C. Penney and also Sumner Feldberg of Zayre to determine:

(1) is management honest?
(2) is the relationship satisfactory with each of these two retailers?
(3) do these companies believe that Topper will be in business ten years from now?

In addition, I shall also check with Glover Johnson of White & Case upon his return from vacation, this Thursday.

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CBX 6

Memorandum to File

August 11, 1971

Re: Topper Corporation

(Telephone conversation with Mr. Hessdorf - Toy Buyer for Zayre)

At the request of Sumner Feldberg, Mr. Hessdorf telephoned me today to discuss Topper Corporation. He considers it a one-man company from the standpoint of merchandising and does not believe that there is anyone who can fill Henry Orenstein's shoes in the present management. He criticized middle management as terribly weak and shallow and believes this is in part due to Mr. Orenstein's broad interest in all important marketing aspects of the business. He indicated that Mr. Orenstein at times calls him at home at 11:30 p.m. at night and that there is a strong personal relationship between Mr. Orenstein and toy buyers throughout the industry. Accordingly, the trade is willing to go along with one of Mr. Orenstein's new ideas much more than it would be with anyone else in the company, although the recent addition of Jack Jones of Mattel should, in part, alleviate this condition.

Mr. Hessdorf rates the company's production capacity as excellent. He also disagreed with Bill Schwartz of Burnham since he did not feel that the company's product cycle is noticeably shorter than Ideal or Mattel. He believes that the company can go into December without having committed itself on an item in contrast to Mattel which orders about 85% of its products from the Far East on a long lead time basis. Currently, the West Coast dock strike has adversely affected Mattel. An East Coast dock strike on September 30th could hurt Topper severly but it would not be so critical as the Smarty-Pants doll and Sesame Street Line are produced in New Jersey. In addition, the Zoomer-Boomer and Ding-a-Ling toys could be transported by air freight as they are lighter weight small items. Mr. Hessdorf believes that the company has done a goo job on Dawn, but that Barbie still dominates the doll industry even after ten years in its price bracket.

We are still attempting to obtain a trade reading from J.C. Penney's toy buyer and also I shall be in contact with Glover Johnson of White & Case upon his return from vacation. Mr. Hessdorf's point, concerning his willingness to go along with Henry Orenstein, but no one else in Topper, obviously detracts considerably from the appeal of this private placement. On the other hand, I think that we should keep an open mind in our discussions with Topper's management tomorrow.

Henry L. Thompson

6

PX 1376 A 3527

CBX 7

Memorandum to File August 12, 1971

Re: Topper Corporation

(Telephone conversation with Mr. Folan, Toy Buyer for J.C.Penney)

Mr. Folan indicated that J.C.Penney's relationship with Topper was satisfactory and that his company has done an increasing volume with it, over the past six years. Unlike others, he believes that the company has good merchandising capability aside from Mr. Orenstein, but that it has a weakness in new-product development. In his opinion, Topper suffers from a limited product base and a lack of continuing staple items such as those in the Milton-Bradley and Fisher-Price lines. He characterizes it as a "TV toy company" because so many of its items are promoted on TV. He believes that the company has done the best job in the industry of being able to capitalize on a hot product but said that in some cases, this is impossible because of a 6-8 month lead time in tool and dies for new production. When I asked him about the shipping strike scheduled for the end of September, he said that everyone in the industry believes it will occur and that it is already creating havoc particularly since West Coast portsare already closed by the strike. Topper is dependent upon the Far East for some key components of its line and thus would be forced to charter planes, if they are available,to bring in parts in the event of the strike.

Mr. Folan believes that increasing consumerism could focus both on the quality of TV advertising thereby perhaps lessening its sales effectiveness and that this is a potential problem for both Mattel and Topper. He said that J.C.Penney has tested all of the Suzy Homemaker products which it sells and found them safe but that there are two small-volume products which it does not carry. In his opinion, this line is of small importance and not one where withdrawal of one or two items would seriously hurt the company.

He considers Topper personnel honest and hard-working. When I asked him if the company is likely to be in business ten years from now, he answered, "Yes", but only after a pause for thought. He believes, like everyone else, that Sesame Street is a very hot product which will provide some stability in the Topper picture for the next few years, but that Smarty-Pants is a one or two-year product.

I do not feel that Mr. Folan had as much intimate knowledge of Topper as Mr. Hessdorf of Zayre, but he did provide a good characterization of the company's role within the industry.

Henry L. Thompson

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Memorandum to Mr. Hole

August 17, 1971

Topper Corporation

(Meeting with David Downs, Exec. Vice-Pres. and Jack Rose,
Vice Pres.,Finance of Topper; and Graham Harrison and
Henry Thompson of USB&CPF)

We spent most of the morning with David Downs and Jack Rose last Friday and both Pete and I were quite favorably impressed with their ability to field our questions and their attitude towards the financing. The company is not over-confident and wants its security buyers to make a profit in backing the management. One of our problems in appraising the situation, is that the trade contacts with whom I spoke still view the company as it was several years ago when it was in a poor financial condition and was dominated by Henry Orenstein, the President. The two officials of Topper gave us several instances of new products such as walking letters of the Sesame Street line and bringing in of personnel to perform sales functions to counteract our possible objections. On balance, both Pete and I were satisfied that the company has a strong second-tier of operating personnel and that it is not a one-man show.

Previously, I had spoken with Glover Johnson of White & Case and he indicated that Meshulam Riklis had never had any dealings with Topper and his only interest was that of a customer of CBW. Mr. Johnson spoke very highly of Henry Orenstein with regard to his moral and personal integrity and everyone with whom we have spoken has indicated that this management is hard-working and honest. Jack Rose and David Downs had done considerable work with regard to our meeting as indicated by the booklet on Topper entitled, "Examples of The Company's Reporting" and had anticipated most of our questions. Accordingly, I believe that the trade has not yet recognized the basic improvement in quality and depth of management at this company. Moreover, it is noteworthy that virtually all of the new products with the exception of the Sesame Street Spellophone have been developed by others besides Mr. Orenstein.

David Downs, who is a former Vice-President of Manufacturers-Hanover, who handled this company's financing when it was in perilous straits seven years ago, readily admits that it is difficult to permanently differentiate a product line in the toy business. He emphasizes,however, that during the past ten years, the total toy market has grown from $800 million in sales to $2 billion, and that non-Christmas items account for about $1 billion of present industry revenues compared with $150 -$200 million in 1960. Even more importantly, he indicated that the ten largest toy companies with a more professional management attitude have expanded their sales from an aggregate of $160 million in 1960 to $800 million last year.

The company's June 30th,1971 balance sheet shows a much improved financial position from that of a few years ago. Currently, Topper has $11.4 million of net working capital and only $81,000 of long-term debt, compared with an equity of $17.7 million. Management expects to close on a $7 million intermediate term loan wit Ford Credit Corp. later this month and will use the proceeds from this,together with t money that it raises from its convertible debenture financing to repay part of bank loans of $20.3 million. The only real negative in the company's present financial position is the 13%-14% interest rates that it is paying on its bank lines and the For Credit issue, but the company has a 100% markup on cost for many of its toys so that i

A 3529

August 17, 1971

can afford to pay this rate. Mr. Rose is preparing a breakeven sales calculation to indicate the level of revenues which Topper must achieve in order to cover its expenses including interest and sinking fund payments on both the convertible and Ford Credit financing. In addition, we will be supplied with a copy of the Ford Credit Agreement which I am told contains restrictions regarding issuance of debt and minimum net working capital. Management will probably pay the Ford Credit issue before maturity as it is attempting to place its debt on an unsecured basis which would give it more flexibility in day to day operations.

Mr. Rose said that the key to limiting exposure to product failures in the toy industry is close control of inventory. His company keeps a day to day control of parts and orders long lead items at the latest possible moment. This prevents over-production of an unwanted item and avoids the dumping of poorly moving items on the trade after they have been produced. During the first seven months of a y there is little problem in ordering toy parts but the company does run some risk of mis calculating demand at this time of the year. Management's policy has been to be conservative and it has an excellent record of avoiding inventory problems over the past four years. In this regard, Mr. Rose believes that buyer goodwill is worth 30%-40% in sales on any given account and thus it would be poor business judgment for the company to produce too many of a particular toy and then have it later subsequently discontinue by the trade as distressed merchandise. Financial relations with the trade are good as indicated by my conversations with the buyers at J.C.Penney and Zayre, and the company had only about $150,000 of bad debts last year compared with current Accounts Receivab of $29.1 million.

In discussing management's philosophy and its attempts to control investment exposure, Mr. Rose said that this organization obtains day to day checks on prod movement at this time of the year. This is done through Mr. Orenstein contacting trad sources who have a close relation with him and using test stores as control outlets for Topper products. The feedback of information from the credit department and the monitoring of orders from salesmen on the day of their receipt gives a good feel of current trends. The trade feels that Topper does the best job in the industry and it is noted for living up to delivery schedules.

Mr. Downs discussed at some length Henry Orenstein's role in the company and indicated that he no longer is involved in day to day sales compared with a year or two ago when he actually took orders. The company has considerably built up its inter capability to develop new items and has brought in Jack Jones to help Mr. Orenstein wi promotion and TV work. Mr. Orenstein is about 47, although he appears older in person. these management moves have been made to build a strong base for future growth rather than in anticipation of Mr. Orenstein's taking a less active role in the company.

Management indicated that we could have a registration of our participat any time after the end of 1971 and that at most times, this could be completed within eight weeks. The longest period we would have to wait would be if we indicated a desi to register in October or November and it was not possible to furnish the SEC with up-dated figures until early February. In indicated to Jay Inglis of CBW that we wanted call protection and a strong anti-dilution clause. He was reluctant for us to have a ve-year non-callable feature but there would be no problem with a three-year one and high call price for two years thereafter. I told him White & Case was familiar with our anti-dilution clause and that it could tell him what we normally expected.

This situation is somewhat offbeat for the Pension Fund but I think that it is quite interesting. The company has the ability to adjust its cost structure rapidly to changing market conditions and appears to be a better credit risk than would be thought for the toy industry. Moreover, management has been uniformly impressive and the basic business appears to be in an uptrend which could prevail for some time. On this basis, we believe that the risk/reward relationship is favorable and that the Pension Fund could invest $3 million in the convertible debenture without undue exposure.

Henry L. Thompson

A 3531

TOPPER CORPORATION
Balance Sheet Data
(in millions)

	6/30/71 Amount	6/30/71 Pro forma for Ford Credit & Convertible	12/31/71 Post Financings
Cash	$ 2.3	$ 2.3	$ 5.8
Accounts Receivable	29.1	29.1	27.5
Inventories	8.5	8.5	6.6
Prepaid & unabsorbed expenses	3.3	3.3	1.0
Current Assets	$ 43.2	$ 43.2	$ 40.9
Current Liabilities	31.8	19.8	13.1
Net Working Capital	$ 11.4	$ 23.4	$ 31.8
Capitalized Annual Rents of $830,000 x 10	$ 8.3	$ 8.3	$ 8.3
Long-Term Debt	0.1	7.1	7.1
Convertible Debentures	-	5.0	5.0
Shareholder Equity	17.7	17.7	20.0
	$ 26.1	$ 38..1	$ 40.4

Per $1,000 Debt & Capitalized Rentals

Net Working Capital	$1,357	$1,147	$1,558
Net Tangible Assets	3,178	1,897	1,902
Market Value equity @$14/sh.	6,296	2,592	2,592

Pre-tax interest coverage - Latest 12 months through 3/31/71 : 3.8 x (a)
- Estimated 1971 after financings : 3.9 x (a)

(a) As estimated and reported by management.

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CBX 10

Memorandum to Mr. Mole

August 30, 1971

Re: Topper Corporation

Mr. Waldman, a First National City Bank loan officer, who handles the Topper account, called me at the request of Walter Jeffers on Friday. He indicated that FNCB has a 40% participation in a banking line with Topper in which it lends up to 80% of eligible accounts receivable. He did not know the current amount of the loan but thought it to be several million dollars.

Mr. Waldman indicated that the bank is lending at 3% over its prime rate without any compensating balances so that it is currently providing funds at 9% to Topper. I asked him why the Ford Credit rate is so high and he said that several years ago, Ford Credit gave its money away but that this policy has changed 180° in the past few years. In his opinion, the 14% maximum rate is high but not out of line and he feels that longer term money in this situation deserves a significant premium over normal commercial banking rates.

FNCB, as part of its lending functions, performs audits of Topper and Mr. Waldman said that this is one of the reasons that his bank does not lend at a lower rate. Management has shown itself to be competent and to have good controls in these audits. The bank rates Topper above-average with respect to the other toy companies with whom it deals and Mr. Waldman believes Jack Rose of Topper to be a very competent financial officer. The relationship between FNCB and Topper has been good and there are no problems at the moment nor does Mr. Waldman anticipate any.

FNCB believes Mr. Orenstein to be extremely important on the marketing side of the business, but indicated that the company has done an excellent job of estimating cost of production for new toys. Mr. Waldman was aware that most of Topper's new items were developed by others than Mr. Orenstein and believes it is lessening its dependence upon him.

On balance, the bank thinks well of the company and that it rates highly among the managements of companies in the toy business. On the other hand, Mr. Waldman was unwilling to commit himself outright as to whether the toy business is one in which we should commit funds and, in fact, ducked this part of my inquiry.

Henry L. Thompson

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Memorandum

January 4, 1972

Citibank .19 #16

TOPPER CORPORATION

(Telephone Conversation with David Downs, Executive Vice President,
of Topper)

I called David Downs, after the FNCB meeting to try to determine whether or not the bank had put pressure on Topper, to obtain additional money. Mr. Downs indicated that it was CBWL, late in 1970, that had requested additional longer term financing and that it was its idea to sell equity in the Spring of 1971. The offering was filed in mid-February and Mr. Downs says that it is completely coincidental that the collections from the Spring merchandising program were due on May 5th with the remainder coming due on August 5th.

He said that FNCB had been a "thorn in his people's side" and that

FNCB

they "literally did not know of the Ford financing until after it was arranged". He said that Topper was bringing in the Ford money to go unsecured and planned to drop the FNCB factoring group. He had had discussions with Manufacturers Hanover concerning taking up the slack if FNCB got wind of this and dropped out of the financing group.

Henry L. Thompson

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memorandum December 29, 1971

TOPPER CORPORATION

(Random Thoughts)

1. It is clear that ten weeks after our closing, the company's financial condition bears no resemblance to that on which we based our investment.

2. Topper, as we understand it today, is not the company that we thought we had invested in.

3. We would not consider making any investment in Topper as we know its condition today, and if the company cannot provide us a credit resembling that required under our agreement, our opening strategy should be to ask for our money back.

4. Topper Corp., and its investment bankers, must come up with solutions or proposals. Only they, have the facts as to what options may be open to them, i.e.,

   Can they raise the cash? Does anyone have money that could be put into the company? Does the company have access to credit for paying us off?
   Who owes Topper money that might be collected? - Maybe Topper has to enforce some collections. It cannot afford the luxury of extending credit and forgiving obligations to it at our expense. Perhaps there are some toy purchasers legally obligated to Topper who don't want the merchandise but would negotiate providing some financial assistance. They could be prospective stock purchasers of Topper.
   Should the company consider partial sale, total sale or merger?
   Sesame Street might be the attraction, and it's probably at the height of popularity now.

5. We would not directly ask the banks to repay us but Topper should tell their bankers that we are asking for our money back because we feel we were given misinformation that persuaded us to provide money that went to reduce bank debt. Had the true situation been made known, the banks would now have our debt position except that it would be fully secured.

6. As trustees, we have to examine our position from the standpoint of whether subordination is valid in the light of misrepresentation.

7. We will want to know more about the auditors' practices in regard to Topper's statements. This area may show there is an auditors' liability that an insurance company would be happy to settle now.

8. We may have to examine the role played by directors and investment bankers responsible for our involvement.

Topper Corp. (cont'd)
Random Thoughts

December 29, 1971

9. Possibly the surveillance of the banks in processing the accounts receivable for financing was improper and they know more of the true situation than they would admit. Did they put the pressure on Topper to replace their own commitments with subordinated money, knowing the status of Topper's receivables? The willingness of the banks to share more equitably with Ford Credit arouses curiosity as to the true bank involvement.

John G. Van Deusen

A 3533

Memorandum

December 30, 1971

Topper Corporation

1. What is the company's Cash problem?
2. Is it running out of funds and what sources are available for running the business.
3. Source and application budget for future.
4. Who is owed what?
   Copies of all credit Agreements or commitments.
5. Who is secured by what?
   What liens are perfected?
6. What does W&C say about our subordination considering brief length of our involvement?
7. What is beneath us?
8. Exactly what negotiations are in progress now and why?
9. Who remains to be dealt with?
10. Who can claim a default?
11. Is anyone taking security now who didn't have it?

John G. Van Deusen

PX 1390

A 3537

February 22, 1973

Memorandum to Mr. M.G. Heatwole

Re: Topper Corporation

On September 28, 1971, USSCPF invested $3.0 million in Topper Corporation 7 1/2% Convertible Notes due 1986 with Connecticut Mutual Insurance Co. also purchasing $1.0 million of the $5.25 million issue. Two and one-half months later, on December 17, 1971, Topper's management publicly reversed its previous favorable statements about 1971 earnings and indicated that the company would instead lose $10 - $15 million for that year. Topper, under new management, has not been able to demonstrate viability as an ongoing operation over the past 15 months and is preparing to file bankruptcy proceedings on Monday, February 26th. Topper's liabilities far exceed its assets and prospects for recovery outside of litigation are slim.

The rest of this memorandum provides background on our investment in Topper and important subsequent developments.

In August 1971, CBWL-Hayden Stone (now Hayden Stone) approached us regarding participation in a subordinated convertible note financing to reduce Topper's bank indebtedness. Hayden Stone had had a long-standing investment banking relationship with Topper including the raising of $6.4 million for the company through a common stock offering in April 1971; and two of its senior officers, Sanford Weill and Roger Berlind, were on the Board. Glover Johnson, a partner of White & Case, was also on the Topper Board; and he had previously approached us regarding a prior financing for the company.

During August 1971, we visited Topper's headquarters in Elizabeth, New Jersey and also met with Messrs. Downs and Rose, the Executive Vice President and Financial Vice President, respectively, to discuss in particular, Topper's internal controls and the status of its inventory and receivables. We further checked with brokerage and retail trade sources to determine the company's industry reputation and viability. As an additional check, we spoke to Glover Johnson and others at White & Case regarding the integrity of management and specifically of Henry Orenstein, the then President, and received a completely favorable reply.

Our final check, on August 27th, was with Mr. Edward Waldman, a Vice President of First National City Bank's factoring division, who called us at request of Walter Jeffers, the Vice President who handles the U.S. Steel account for the Bank. Mr. Waldman's organization managed the Topper account for the secured creditors including reviewing the quality of receivables and inventories used as collateral. Mr. Waldman knew that USCPF was considering an unsecured loan to Topper. He also presumably knew from Mr. Jeffers of the arrangement whereby we pay FNCB for custodial investment services and regularly consult with the bank's senior investment officers, and he definitely had had an opportunity to review the status of the Topper loan since he called us two days after the original contact with Mr. Jeffers on August 25, 1971. Attached is a copy of the memorandum dictated on Friday, August 27th from notes of the conversation with Waldman, indicating that Topper's management "has shown itself to be competent and have good controls" in FNCB audits and that "there are no problems at the moment nor did Mr. Waldman anticipate any."

Topper's 1971 problem is difficult to explain briefly but it basically relates to a $14 million shipment of goods in December 1970 that were to be paid for in the May - July period. Under the FNCB loan agreement, the May receivables did not become "ineligible" as collateral until 60 days after the due date. Collections for the December 1970 goods, were far beneath expectations and Mr. Waldman, in a letter of July 15, 1971, amended the credit agreement to reflect this. Similarly, on August 25th, the very day we contacted Mr. Jeffers, Mr. Waldman's assistant again amended the credit agreement to reflect the increase in past due accounts and dovetailed the extension to coincide with our September closing on the notes. At the time, Mr. Waldman also knew Topper was 3 to 4 months behind in paying many of its bills because of its cash squeeze. In view of this, we cannot believe that Mr. Waldman did not know he had a problem loan on his hands or that he gave us full disclosure.

Shortly after Topper's December 1971 announcement of its difficulties, we employed Winthrop, Stimson, Putnam and Roberts to advise us of our legal rights since White & Case withdrew from representing us because it is Topper's general counsel. In addition, we approached Walter Wriston, Chairman of FNCB, in January 1972, concerning the lack of disclosure by Mr. Waldman. Mr. Wriston in turn, referred us to Lester Garvin, a senior member of the Bank's Credit Committee, who did not refute any of the facts Mr. Molé presented to him but said instead that we must have known that this was a marginal type of credit since it was in the Bank's factoring division. This, of course, was not a satisfactory answer to us.

In addition to our other checks, we relied upon Arthur Young & Company's certification of the company's December 31, 1970 statements contained in the 1970 Annual Report and in the April 1971 common stock prospectus included in the Hayden Stone private placement brochure to attest to the company's financial soundness. This certification, which was the last available at the time of our investment, showed Topper to be profitable in both 1969 and 1970 and to have net working capital of $7.4 million compared with long-term debt of $4.3 million. We also received unaudited June 30, 1971 financial statements from Mr. Rose of Topper before our closing and in October 1971, received the unaudited September 30, 1971 statements. The September 30, 1971 statements, which were certified by Mr. Rose on November 12, 1971, showed a soundly financed company with improving earnings. Along with the September statements, we were also supplied by the company with calculations indicating our purchase agreement was not being violated.

Mr. Clarke, Topper's new president who replaced Henry Orenstein early in 1972, said that testimony in the current SEC investigation of Topper and his staff's difficulty in compiling accurate records in 1970 transactions confirm that the numbers in the 1970 Annual Report were improper. He added that Arthur Young had allowed questionable costs including expenses of postage stamps and showroom fixtures to be capitalized. In his opinion, Topper never made money in its four-year history.

Even more damaging to Arthur Young, is the heavy returns of over $16 million that occurred after the December 1971 announcement of Topper's difficulties. The company's sales were, in effect, on consignment but this was not indicated anywhere on the December 30, 1970 financial statements. Accordingly, Arthur Young recently made an unprecedented "withdrawal" of its certification of Topper's 1970 results. We have never made an investment without an auditor's certification and would not have considered one in Topper, without it.

Winthrop, Stimson originally took our case with the option to withdraw if litigation developed and that firm has now indicated it cannot pursue our case in Court because of the heavy work commitments of its trial staff to longstanding clients. Winthrop, Stimson says, however, it will cooperate fully with any new counsel we select.

Connecticut Mutual has asked us to join with it in seeking new counsel to review our mutual case. We do not contemplate litigating unless the new attorneys advise us we have substantial prospect for recovery and that it will represent us in litigation should it be necessary.

The SEC is currently conducting a private investigation of Topper and has taken testimony from former personnel at the company and officers of Hayden, Stone.

Henry L. Thompson

A 3540

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January 6, 1972

Memorandum

Topper Corporation

Telephone conversation with Jay Inglis of Geneve Corp.
(formerly of CBWL-Hayden Stone and the one who introduced
the subordinated convertible financing to us)

Mr. Inglis said that he has been unable to reach Topper's management after its December announcement, even though he has tried several times. He also added that he bought Topper stock for himself and had his parents borrow money to buy the shares at higher prices during the summer.

I called Mr. Inglis to try to determine whether he knew of any problems in Topper and also to find out what role other creditors had played in our placing funds with the company. Mr. Inglis said that he had not worked on the April common stock offering and that this had been done by Mr. Weill and Mr. Berlind. It is his opinion that the banks "exerted tremendous pressure for the company to obtain equity" on this offering. He believes that Mr. Greenstein has not sold stock in the company and that he had planned a secondary offering during 1972. He was told by other sources that Jack Rose had sold stock in October and that David Downs had done so shortly after the company's April 1971 financing.

I asked Mr. Inglis about the consignment sales and he said that CBWL had worked at getting information about this area when it was arranging the April 1971 financing. CBWL was told that merchandise was moving rapidly and that Topper's people in the stores confirmed a flow of goods over the counter. Further, with regard to "consignment selling", it is his belief that CBWL was shown dating records which indicated that Topper's practices were less liberal than Mattel's. He was also told that "Dawn" was outselling "Barbie".

It is his impression that the common stock offering had been made conditional by CBWL upon Topper's obtaining a relationship with Sesame Street and also the liquidation of its unprofitable children's toiletry division.

In his view, the company's reasons for the Ford and our financing was that 1971 was to be a good year and it had never been well-capitalized. The company, thus somewhat out of fear, wanted to obtain money while it was available rather than wait for higher stock prices or a better credit rating.

Mr. Inglis also said that he was told that Arthur Young had visited Topper in July and was "upset about its inventory composition". He said that the company and his former firm depended upon the banks to attest to the quality of receivables.

Henry L. Thompson

A 3541

PX 1396A

Memorandum to Mr. Walker

January 10, 1972

Topper Corporation

While the attached overall Summary of Investments at the year end makes good reading, the story on Topper Corporation does not.

I am enclosing a memorandum of Henry Thompson's together with some supporting data. We have never before had a company get into financial trouble within three months of our investment.

I have shown Bill Lang the attached memorandum, and he agrees that, subject to your approval, I should talk to Walter Wriston. I would tell him that, in our opinion, we did not receive full disclosure from the bank. I might also show him a copy of this memorandum. Do you approve of this step?

For statement purposes we have written our Topper investment down to 25% of book value, although, in all probability, we should realize substantially more than this unless the banks refuse to extend credit to the company.

Harvey Molé

Attachments

A 3542

PX 1396B

Memorandum to the Committee on Finance

January 10, 1972

Topper Corporation

Glover Johnson, a partner of White & Case and a Director and shareholder of Topper Corporation, telephoned us prior to that company's $7.9 million public common stock offering in April 1971 to recommend our participation in it. White & Case is general counsel to Topper and has had this relationship for several years. We declined since the common stock seemed too speculative in view of the company's past record, its heavy debt position, and the risks of the toy business.

CBWL-Hayden Stone, the underwriters of the April financing, approached us in July after the company's equity base had been improved by the common stock sale, regarding an investment of $3.0 million in a $5.25 million private placement of convertible subordinated debentures. In evaluating this proposal, we checked, among others, with Glover Johnson to determine the integrity and capability of management; with the toy buyers of Zayre and J.C.Penney to obtain a trade check; and with First National City, whose factoring division manages the company's short-term credit line including auditing its receivables. We wished to determine whether there were any problems with Topper and the bank's opinion of management capability and depth. FNCB knew that we we considering an unsecured loan to Topper and led us to believe that it knew of no proble in the situation. In the course of our investigation, Mr. Thompson toured the company's plant and headquarters' facilities; Messrs. Thompson and Harrison met with management t discuss particularly its internal controls and management depth; and Mr. Orenstein, the company's President, later met with Messrs. Thompson and Hoic to review Topper's operations.

At the time of our investigation, we were presented with Topper's unaudited June 30, 1971 balance sheet and its six months' income statement which showed a substant improvement in the company's financial position since the December 1970 annual report audited by Arthur Young & Co. Topper was represented as operating profitably with pret income of $5[illegible],590 for the first half of 1971. The June 30th balance sheet showed curr assets of $43.2 million, of which $2.3 million was cash, $29.1 million net receivables, and $6.5 million of inventories vs. current liabilities of $31.8 million. Current liabilities included $20.3 million of bank loans and $3.25 million of senior subordinat notes due January 31, 1972. Net plant amounted to $7.7 million, long-term debt was on $81,000 and stockholder equity was $17.7 million. As part of our checks we asked the company to furnish us with samples of its internal reports to monitor receivables and inventory and to provide us with a breakeven calculation to show at what sales level it could operate profitably in the event its products did not sell as expected. Based on investigation, we concluded that Topper was a well-managed, though admittedly offbeat situation, with reasonably good credit. We, therefore, recommended to the Committee a $3.0 million participation in the 7-1/2% Subordinated Convertible Debentures due 1986 which was closed on September 28th. Connecticut Mutual Life invested $1.0 million in the debentures with the remainder being placed in smaller amounts among various pension fund accounts of CML.

Management continued optimistic about its basic toy business and was particul enthusiastic about its new line of Sesame Street toys. The company's September 30th financial statements supplied in October, after our closing, showed further profit gai and an increase in net worth. Third quarter results were accompanied by a release whic stated that nine months' sales and earnings were the best in the company's history. On December 16th, however, Mr. Orenstein informed us that Topper, the following day would announce a loss for 1971 of $10 - $15 million and that its net worth had been nearly wiped out.

Discussions with the company's management indicate that shipments had been recorded as sales and receivables even though the trade viewed them as consignment items. T trade accordingly returned about $16.0 million of merchandise in 1971 compared with $2.0 - $3.0 million last year. At Topper's normal markup, this would account for about $8.0 mill of the estimated loss. The staggering level of returns is said to reflect a generally p Christmas selling season for toys promoted on television and retail sales of only $25.0 mi lion for the company's "Dawn" doll line compared with shipments of over $35.0 million. Furthermore, the company's inventory problem was compounded by receipt of merchandise fro the Far East related to a long dating selling program for the Spring of 1972, which has been discontinued. This could have accounted for as much as another $7.0 million of the loss. On the positive side, we are assured that Sesame Street is continuing to do well. Shipments, which did not start until late in the fourth quarter, amounted to about $4.0 million in 1971. It is expected that they will approximate $20.0 million in 1972.

Topper now has debt of about $25.0 million consisting of (1) banks and secured lenders -$17.0 million; (2) senior subordinated notes -$2.85 million; and (3) $5.25 million of subordinated debentures (our issue). In addition, the company owes trade creditors abo $11.0 million of which $4.25 million is owed to Dancer-Fitzgerald, its advertising agency. Against this, Topper's management says it has assets which include $17.0 million of inventories. ($11.0 - $14.0 million of which are in finished goods); accounts receivables of $11.5 million, and net plant of $6.0 million including tools and molds, for a total of approximately $35.0 million. While the company is strapped for cash, January is historic the month when there is a substantial reduction in receivables. Last week, Topper collect $1.9 million and collections are scheduled to rise sharply in the next two weeks. Proceed from collections, less working funds made available, are being used to reduce the secured indebtedness of $17.0 million which is held by First National City Bank, Manufacturers Hanover, Fidelity Union, Mercantile Bank of Canada, and Ford Motor Credit. At a meeting on December 27th, the bank group decided to supply Topper with funds at least until January 24th since this is a period of heavy cash inflow into the company.

On January 3rd, Messrs. Thompson and Hole visited Mr. Waldman, the FNCB Vice President handling the account and asked for the subordinated notes to be included pari passu with the secured creditors. The major points we made were (1) FNCB has a relati ship whereby it is paid for investment advice; (2) Mr. Thompson consulted Mr. Waldman on August 27th and received a favorable report on Topper even though Mr. Lusk (Mr. Waldman's assistant) two days earlier had written the company indicating it was lending $4.8 million against "ineligible" receivables. At the same time, Mr. Lusk extended this loan until September 30th, two days after our closing; (3) the proceeds of the subordinated debentures were used to reduce the banks' indebtedness. We emphasized that the banks' position had been materially improved by our purchase of debentures and the injection of the Ford Credi money in a company which never really existed as it was presented to us in September. Thu since we had relied upon FNCB to attest to Topper's soundness in the very area that subsequently caused trouble, we asked to be treated equally with the secured lenders.

Mr. Waldman replied that FNCB was (1) not a party to any of the company's financings since April 1971; (2) that he recalled the conversation with Mr. Thompson but had no inkling of anything being wrong at that time; (3) that he was unaware of the FNCB letter authorizing lending against "ineligible" receivables but that it was common to lend again inventory and other assets; (4) that the decision to allow Ford Credit to share pro rata collections, even though its loan has a fixed maturity, was in accordance with the default terms of the existing agreement as interpreted by FNCB's lawyers rather than a re-structur of the agreement.

Mr. Waldman took our position under advisement. We requested a prompt response and he called later that day to say that all of the secured lenders had rejected our request.

Henry L. Thompson

PX 1400 A 3544 an 2/7/75

PX 1400
HSC Thomas
D

Memorandum

January 3, 1972

TOPPER CORPORATION

Points Regarding Our Meeting with FNCB tomorrow.

It is apparent from the company's stated financial position of roughly $25 million of assets and $24 million of liabilities, that we would recover very little in the event of a liquidation of Topper now, in view of the subordination of our Notes to all but $11.4 million of trade payables. It is therefore imperative that we place as much pressure as possible upon FNCB to place us on a pari passu secured position at the meeting tomorrow. In this regard we can make the following points which should help us:

1. Our money improved the FNCB position directly as it was used to pay down the bank debt.

2. The bank's position, if we had not gone into the deal, would have been that of a secured creditor having an additional $5.2 million loan so that there is a strong moral basis for including us in with the bank group.

Fri 27

3. We checked with FNCB on Monday, August 30th and obtained a favorable reading on Topper even though the bank on Wednesday, August 25th, had written the company regarding its loan of $4.8 million against "ineligible" security and had given the company an extension which coincided almost to the day with the closing on our debentures.

4. We pay FNCB $100,000 a year for investment services and have a right to expect more for our money.

5. There is a longstanding relationship between the U.S. Steel total organization and FNCB that could be jeopardized if the bank does not cooperate with us.

6. The bank received monthly financial statements of Topper and its auditors had been at the company in the summer months so that it should have had a better idea of what was happening. Moreover, it had used the list of eligible accounts supplied by Topper in making its loans so that it should have known something adverse was happening there. In addition, Topper indicated that the bank checks trade sources periodically to determine how merchandise is moving. ✕

7. If there is a bankruptcy in this instance, FNCB could be placed in the position of having to defend itself concerning mismanagement of the account and would at the least be subjected to adverse publicity if its dealings with us were known.

8. At the bank meeting on Monday, December 27th, FNCB and Manufacturers Hanover allowed Ford Credit to improve its position, therefore not denying mismanagement of the account, and also implying acceptance of Ford's claim that it did not invest in the company which it thought it was putting its funds into. As I understand it, Ford previously was pari passu, only in the event of liquidation, so that the banks could have their money paid off, with Ford having its funds returned last, but secured by all remaining receivables, etc., under the Agreement. Now Ford shares pro rata in collections to reduce its loan and thus the effect of the change is to place Topper in liquidation.

9. We are not set up to handle a recovery situation ourselves.

Henry L. Thompson

A 3546

PX 1401

January 3, 1974

Memorandum to Mr. W. H. Lang

Topper's Receivable and Inventory Problems And Representations to U.S. Steel Pension Fund

The Pension Fund was alerted to investigate problems in Topper's receivables and inventories for the following reasons:

1. Hayden, Stone sent us a preliminary prospectus in connection with Topper's June 1970 common stock sale that included a past history of substantial deficits and included history of the buy-back from Philadelphia & Reading of the company by Henry Orenstein. We had no interest in this offering because of Topper's past record and highly leveraged capitalization.

2. The private placement brochure for the subordinated convertible notes supplied to us by Hayden, Stone about fifteen months later in late July 1971 or early August, contained a prospectus of Topper's April 1971 public common stock financing. It again mentioned the substantial losses in Topper's past. At one point, it said losses in 1966 were in part caused by "liquidation of large quantities of inventories at substantially reduced and close out prices." A few pages later, the prospectus indicated Henry Orenstein and his uncle Marrius had introduced a selling program through supermarkets "which permitted retail outlets to return unsold merchandise for sale during Christmas 1953." This prospectus also made reference to Topper's December 1970 $14.0 million Spring Program, consisting largely of "Dawn" dolls and clothing, on which payments were due five to eight months later in May to July 1971.

3. The Topper 1970 Annual Report, whose financial statements were certified by Arthur Young & Co., was supplied to us in August 1971. In a footnote, it also referred to the December 1970 $14.0 million Spring sales program. The footnote entitled "Accounts Receivable" reads as follows:

   > "Approximately $14.0 million of sales made in December 1970 carried extended credit terms of five to eight months. The comparable amount for the prior year was $2.0 million."

4. In a conversation on August 12, 1971 with Glover Johnson, a partner in White & Case and director of Topper, he said that Topper had been forced by Philadelphia & Reading to sell on consignment when it was part of that company. He said that this practice had been discontinued after Orenstein's repurchase of the company, which he had helped to arrange. In fact, however,

the company had sold a substantial amount of merchandise to certain customers under secret agreements which provided for exchange and return of the merchandise.

Previously, Mr. Johnson had called me to recommend Topper as an investment for the Pension Fund in connection with the June 1970 common offering. Remembering this in early August 1971 and knowing that White & Case was Topper's general counsel, I called Jack McNally at the beginning of my investigation of the private placement and asked about the integrity of Topper's management. He replied that he believed that all of White & Case's clients were honest and that his firm could not provide us with information on Topper because of its being the company's general counsel. Even so, Glover Johnson volunteered through Orenstein to provide us with any help that he could on Topper and thus I spoke to him upon his return from vacation on August 12, 1971.

To assure that receivable and inventory problems did not exist at the time of the private placement, the Pension Fund made these inquiries and received these assurances from Topper in August 1971:

1. On August 4, 1971, I spent the day on a Hayden, Stone arranged trip of Topper's New York showroom and Elizabeth, New Jersey plant and headquarters. During the course of my visit:
    a. Mr. Orenstein indicated that he personally monitored the over-the-counter sale of toys at key outlets, that merchandise was moving very well, that the business of his company was more stable than that of the industry because Topper's line contained many lower priced, more stable toys and that the "Dawn" doll line was doing particularly well against Mattel's "Barbie."
    b. Mr. Rose said that past billing problems had been corrected, that bad debts on accounts receivable were small and should be under $200,000, that sales were final sales and were not returnable, and that the company was "hardnosed" on its return policy. He also indicated that Topper had an elaborate computer system to prevent over-ordering of inventory and to keep [illegible] of receivables, and that major new capital expenditures for molds and parts were not made until management was sure goods were moving in stores, and that the credit department of Topper regularly asked customers about how toys were selling.
    c. I was introduced by Orenstein to someone at the Topper headquarters who showed me Polaroid snapshots of "Dawn" displays taken in stores by Topper salesmen. This was said to be used by management as a means of knowing inventory levels in stores and was cited as proof that the company knew its "Dawn" line was selling well. It was "Dawn" merchandise that comprised much of the $14.0 million December 1970 shipments.

d. Jay Inglis of Hayden, Stone said his firm was quite close to Topper, that Topper was Weill's and Berlind's largest personal holding, that his firm had been the investment banker for several financings over the past few years and that Topper's former problems had been corrected. He also indicated that Topper's merchandise was selling well and that the company's business was relatively stable with below average dependence upon Christmas.

2. On August 17, 1971, Rose and Downs of Topper met with Mr. Harrison and me at our offices for over two hours. Rose cited the company's excellence in avoiding inventory control problems, its day-to-day checks at this time of year on the movement of product in stores, Topper's elaborate computer based control system, and its ability to defer capital investment until it had a good reading of customer response to new products. Downs emphasized the stability of the product line and the success of the relatively low priced "Dawn" line.

3. At the above meeting, Rose provided a booklet entitled, "Examples of Company's Reporting." This booklet had exhibits and brief write-ups supporting Rose's statements about good control of inventories and receivables including an analysis of orders and shipments, sales analysis reports, a credit summary and an accounts receivable report.

4. At this same meeting, I asked Rose about Topper's breakeven sales point and he sent a "fail-safe" calculation showing that his company could successfully cover interest and sinking fund payments on all debt including our private placement at a volume level of $39.0 million in 1972 compared with a sales projection of $68.0 million for 1971. The letter added, "The decision to operate on a "fail-safe" basis is made in the Fall of the prior year. We believe that any extraordinary weakness in any of the company's products would be known to us in the Fall."

5. On September 1, 1971, Orenstein, Rose, Downs, and Inglis visited Mr. Molé and me at our offices mentioning among other things the success of the "Dawn" line and the improved stability of the product line. Mr. Molé is not sure whether it was at this meeting or not, but he recalls discussing Topper's past problems and receiving assurances that the computer system would prevent their recurrence.

In addition to these assurances, the Pension Fund also made these further checks of Topper through others at White & Case; the toy buyers of Zayre and J.C. Penney; and finally, with Edward Waldman, the Vice President of First National City Bank in charge of the Topper account.

1. Towards the end of August and after my conversation with Glover Johnson, George Nelson at my request contacted Tom Ramseur and/or Jack McNally of White & Case and asked them about Glover Johnson. I was told by Mr. Nelson that Johnson was well regarded, that he was still considered to possess good judgment at about age 70,

and that he was thought within White & Case to be interested in this type of company and to have had past success in his personal investments.

2. I contacted Sumner Feldberg, then executive vice president and now president of Zayre, whom I knew through the Pension Fund's investment in his company, early in August after my visit to Topper's headquarters. He placed me in touch with Mr. Hessdorf, the Zayre toy buyer, on about August 11, 1971. Mr. Hessdorf said he knew Henry Orenstein well and that Zayre did considerable business with Topper. He made no mention of the right to return or exchange merchandise, or any special arrangements on such matters between his company and Topper.

3. Likewise, early in August after my visit to Topper's Elizabeth facilities, I telephoned John Hebard, assistant treasurer of J.C. Penney, with whom I had previously completed a $7.4 million sale-leaseback, and requested to speak with his firm's toy buyer who knew Topper. Pursuant to this request, I talked on about August 11, 1971 to a Mr. Folan, who indicated that J.C. Penney's business with Topper had increased in each of the past six years and that he was satisfied with his relations with Topper. Like Hessdorf, he made no mention of right of return or exchange for merchandise.

Knowing of Topper's factoring arrangement with First National City Bank, I was told by Orenstein that I was free to check with Edward Waldman, whom he said was the senior man on the account. In response to an inquiry I made to Walter Jeffers, Waldman called me on August 27, 1971 and told me among other things that there were no problems, he did not anticipate any, Rose was a competent financial officer and that Topper had shown itself to be competent in the Bank's audits. Subsequently, we learned, among other things, that the First National City Bank knew that past due accounts receivable had increased substantially in July and August 1971 and that this trend continued in September.

On September 3, 1971, the Pension Fund recommended to the Committee on Finance a $3.0 million investment in Topper 7 1/2% Subordinated Convertible Notes due 1986, which was approved. The closing for the private placement took place on September 28, 1971 with the proceeds the next day being used to reduce bank borrowings. About two months later we first learned of Topper's problems that led to its bankruptcy in February 1973.

Henry L. Thompson
Henry L. Thompson

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A 3550

January 4, 1971

Topper Corporation

(Interview between Mr. Edward Waldman, Vice President of FNCB and Messrs. Molé and Thompson.)

In our meeting with Mr. Waldman, we emphasized the following points to convince him that the subordinated note holders should become secured pari passu with the banks and Ford Credit.

1) Our money went to pay off the banks

2) We have a fee relationship whereby we pay FNCB for investment services.

3) We checked on August 27th with Mr. Waldman and obtained a favorable check on Topper while the bank had written Topper on August 25th indicating that it was lending $4.8 million against "ineligible" receivables and had extended this loan to September 30th, a few days after our closing.

4) We are not staffed to perform collection of receivables while the bank is.

5) We feel strongly from the point of view of simple fairness that we should be included on a secured basis with the bank group.

Mr. Waldman replied to us as follows:

1) FNCB was not a party to the common stock, Ford Credit, or subordinated debenture financing and had not asked Topper to obtain new money.

2) Mr. Waldman recalled the conversation with Mr. Thompson in August but said he had no inkling of anything's being wrong at the time.

3) He seemed unaware of the FNCB letter of August 25th but indicated that it was common to lend against inventory and other assets, not just "eligible" receivables.

4) Ford's sharing in collections was due to default provisions under the Ford Agreement, which FNCB's lawyers felt was in accordance with its terms. He said when questioned that Manufacturers Hanover $3.0 million letter of credit had not been brought into the Agreement at the Monday meeting of the secured creditors.

Mr. Waldman also made these additional comments on the situation:

1) Mr. Orenstein is not lacking in integrity but he is poor on financial matters. He added that Mr. Rose, the Financial Vice President, is an accountant and cannot stand up to Mr. Orenstein.

2) The banks decided to keep Topper alive until January 25 since the company could collect receivables better than the banks without arousing the trade and that most good receivables are historically paid in January.

3) On January 25th, the banks will meet with Topper again on the next step. Mr. Waldman is not too optimistic about keeping Topper going then.

We asked Mr. Waldman to get back to us quickly and he called yesterday afternoon. He said that he had contacted all of the secured lenders after our meeting and that they would not agree to our becoming secured pari passu with them.

Henry L. Thompson

A 3552 Px 1403

City Bank X-33-2d
(PCt) 8/1/75

Memorandum

January 6, 1972

Topper Corporation

(Telephone conversation with Jack Rose, Financial Vice President, Topper)

I called Mr. Rose today to try to obtain more up to date figures for my memorandum to the Committee on Finance about the Topper situation. He indicated that he is now trying to close the books for December and thus does not still have accurate numbers. He did, however, supply me with some useful information for my memorandum.

In addition, Mr. Rose made the following points in our conversation:

(1) Mr. Hole and I conveyed our message effectively to Mr. Waldman, and he feels under considerable pressure;

(2) FNCB knew of Ford's money as it saw documentation relating to Topper's going unsecured;

(3) Topper requested the provisions in the Ford Agreement to go unsecured;

(4) In August, Mr. Waldman knew U.S. Steel Pension Fund money was being considered for investment in Topper. Mr. Rose said that FNCB did not request this money but that Mr. Orenstein handled most of the deals with the bank;

(5) Mr. Rose said that FNCB was informed that we would be making a commitment to Topper within a day or two after the meeting with Mr. Hole and me at our offices prior to my writing the decision memorandum;

(6) Mr. Rose said that the reason for the delay in the Ford closing, was that "they move slowly".

I asked Mr. Rose if his company had approached Manufacturers' Hanover about taking over the FNCB commitment should that bank drop out of the loan agreement but he does not believe that the timing is currently right to make this move. He emphasizes that the company is making every effort to make a good showing between now and the January 24th meeting with the banks, so that they will continue to supply funds.

Henry L. Thompson

PX 1407

A 3553

February 10, 1972

Memorandum
Prepared at the request of, and for,
Winthrop, Stimson, Putnam and Roberts

Topper Corporation

I talked with Mr. Lester Garvin, Senior Vice President of First National City Bank, who had been assigned the problem of the Topper Corporation as it relates to our Pension Fund by George Scott the Chairman of the Policy Credit Committee. Mr. Walter Jeffers also joined us.

I explained to Mr. Garvin that I had been unable to be with Messrs. VanDeusen and Thompson when they met with him on January 25th. The meeting had been primarily an exposition by Mr. Waldman of his position in the Topper matter.

I explained that Mr. Jeffers had arranged for Mr. Waldman to call Mr. Thompson about the Topper credit last August and Mr. Waldman had called on August 27th and gave the company a good credit rating. Mr. Garvin suggested that perhaps we should have come up to the bank and talked to them at length rather than a five or ten minute telephone call. I agreed, with hindsight this would have been desirable but Mr. Waldman had plenty of opportunity to prepare himself for the call to Mr. Thompson with the latest figures, etc.

I briefly reviewed the subsequent events, including our meeting with Mr. Waldman on January 4 when he promptly contacted the other lenders and they declined to have us equally secured. I also pointed out that the First National City had been responsible for auditing the receivables as to age and eligibility and mentioned that two days before, on August 25th, the bank had made a temporary increase of $4.8 million in their loans in excess of the normal 80% advance against eligible receivables. Past due receivables we learned later from the company had risen from $1.3 million to $7.2 million at the end of July. I stated that it was inconceivable to me that Mr. Waldman had not been aware of this deterioration of receivables when he talked to Mr. Thompson on August 27th, particularly since this extension of $4.8 million was only until September 30th which was two days after our closing. Mr. Garvin had suggested that since the additional credit of $4.8 million had been extended beyond the normal loans against eligible receivables this implied that Mr. Waldman felt that the credit was good. I countered with the fact that the extension was to last only two days beyond the close of our loans of which the bank had full knowledge. Furthermore, I mentioned that Mr. Waldman admitted that on January 25th in Mr. Garvin's presence, together with Messrs. VanDeusen and Thompson, that Topper had always been "slow pay" by four to five months, including such bills as electricity, IBM rentals, etc. I said that this was the first we had ever heard of the company being "slow pay."

Mr. Jeffers pointed to the fact that since the Topper loan was in the factoring division there was a clear indication that this was a marginal type of secured loan. My reply was that in view of the City Bank's close control over reserves, we felt that we were getting an excellent check on the company's credit status.

I pointed out that in our type of mezzanine financing we could not help taking a loss from time to time. However, in this case the loss occurred within 2 1/2 months of making the loan after what we now believe was incomplete disclosure by Mr. Waldman. I stated that while the subordinated lenders had known from the beginning that their money would be used to reduce bank loans together with the Ford credit loan, the fact that the company got into difficulty so promptly seemed to me to be a particularly sensitive area for the bank.

Mr. Garvin stated he and Mr. Jeffers would review the matter within the bank, talk with Mr. Waldman and report bank to us later.

Harvey Molé

A 3555 PX 1408

Memorandum to Mr. W. A. Walker February 13, 1973

Re: Topper Corporation

In August 1971, CBWL-Hayden Stone approached us regarding participation in a $5.25 million subordinated convertible debenture financing to reduce Topper's bank indebtedness. CBWL-Hayden Stone had had a longstanding investment banking relationship with Topper including the raising of $6.4 million for the company through a common stock offering in April 1971; and two of its senior officers, Sanford Weill and Roger Berlind, were on the Board. Glover Johnson, a partner of White & Case, was also on the Topper Board; and he had previously approached us regarding a prior financing for the company.

During August 1971, we visited Topper's headquarters in Elizabeth, New Jersey and also met with Messrs. Downs and Rose, the Executive Vice President and Financial Vice President, respectively, to discuss in particular Topper's internal controls and the status of its inventory and receivables. We further checked with brokerage and retail trade sources to determine the company's industry reputation and viability. As an additional check, we spoke to Glover Johnson and others at White & Case regarding the integrity of management and specifically of Henry Orenstein, the then President, and received a completely favorable reply.

Finally, on August 30th, we spoke to Mr. Edward Waldman of First National City Bank, which we pay for investment services, since his organization managed the Topper account for the secured creditors including reviewing the quality of the receivables and inventories used as collateral. Mr. Waldman, among the information he gave us, said that Topper's management "has shown itself to be competent and have good controls" in FNCB audits and that "there are no problems at the moment nor did he anticipate any". We subsequently learned that we did not receive full disclosure from Mr. Waldman since his assistant had two days before our credit check, written Topper increasing the loan against past due receivables and extending the loan to coincide with the time of our closing. The proceeds from our financing were directly used to pay down FNCB and the other secured creditors' indebtedness with our group's money replacing theirs on an unsecured basis.

Two and one half months later, on December 17, 1971, Topper publicly estimated a $10 - $15 million loss for 1971. Subsequent meetings in early 1972 with creditors permitted the company to continue operations last year under a new management headed by Henry Clarke, a former officer of CBWL-Hayden Stone. Mr. Clarke's efforts to rehabilitate Topper have been unsuccessful, however, because of a generally poor industry environment for promotional toys, lack of cooperation from the trade in resolving its problems, and the poor status of the company's customer records. Consequently, all of Topper's marketable inventories have now been sold, its arrangement to produce "Sesame Street" toys has been terminated, and the company appears on the verge of bankruptcy with its liabilities far exceeding its assets. On this basis, prospects for recovery of our $3.0 million investment outside of litigation seem slim.

Since Topper's December 1971 announcement of its difficulties, we have cooperated fully with management to give the company a maximum chance for survival. We, and Connecticut Mutual which has $1.0 million of the convertible debentures, also, employed Winthrop, Stimson, Putnam and Roberts as attorneys to advise us of our legal rights since White & Case withdrew from representing us bec it is Topper's general counsel. In addition, we approached Walter Wriston, Chairman of FNCB, in January 1971, concerning the lack of disclosure by Mr. Waldman. Mr. Wriston in turn, referred us to Lester Garvin, a senior member of the Bank's Credit Committee, who did not refute any of the facts Mr. Mole presented to him but said instead that we must have known that this was a marginal type of credit since it was in the Bank's factoring division. This, of course, was not a satisfactory answer to us.

In doing our initial investigation of Topper, we relied upon Arthur Young & Company's certification of the company's December 31, 1970 statements contained in the 1970 Annual Report and in the April 1971 common stock prospectus included in the CEWL-Hayden Stone private placement brochure to attest to the company's financial soundness. This certification, which was the last available at the time of our investment, showed Topper to be profitable in both 1969 and 1970 and to have net working capital of $7.4 million compared with long-term debt of $4.3 million. There was nothing in the footnotes to indicate that the company's sales were in fact only on consignment, that its customer receivables were improperly recorded, or that its inventories were overstated. Notwithstanding our other work, these financial statements were crucial to our analysis, since we have never made an investment without the certification of independent auditors.

Mr. Clarke, the new President, in his conversations with us has indicated that the present SEC investigation of Topper and his staff's difficulty in compiling accurate records of 1970 transactions, confirm that that year's certification was improper. For this reason, he believes that Arthur Young could not defend the figures in the 1970 Annual Report and that it therefore "withdrew" its certification. Winthrop, Stimson has indicated that we have a good case against the auditors based on the misleading information provided in the 1970 Annual Report and that it will cooperate fully with trial counsel should we decide to litigate our claim against Arthur Young and/or Hayden-Stone.

Connecticut Mutual has obtained internal approval to seek a new law firm to press our case and has asked us to join with it in selecting new counsel. We recommend that we do this.

Henry L. Thompson

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A HS Ex Long B ID
an 2/11/75

TOPPER

Pursuant to arrangements set up by Messrs. Wriston and Walker, I met with Lester Garvin, Chairman of the bank's Credit Committee, to discuss this matter. Our effort was to determine what facts existed and then look at the impact of those facts.

Our thesis went along this way -- in response to inquiry directed to Walter Jeffers, our contact, for detailed information and evaluation of the company, Mr. Thompson was directed to Mr. Waldman, who is head of their Factoring Division. We reasoned that since Mr. Waldman told us the management was competent and described in some detail the talents of Mr. Rose in finance and Mr. Orenstein in marketing and cost analytical work and ended up with the comment that this was an "above average toy company in every way"; and furthermore, since he had responded to questions that he knew of no financial difficulties or problems, that it was most difficult for us to believe that a company could go into bankruptcy 90 days later. This position was supported by the fact that twice between the end of August and October 1 the bank had violated its own 80% eligibility rules and increased their outstanding loan. Furthermore, since the bank was charging a higher rate of interest they had the privilege, and they performed the function, of auditing receivables and unless they were ignoring the flow of information they had to know that the company was in trouble. They did not choose to tell us that the loan agreement was amended twice nor did they tell us that the company was three to four months behind in their bills. Thus we felt very strongly that we had less than adequate information in response to our request. While it was no secret that the Pension Fund investment was to be used as a reduction in the FNC loan, the combination of the failure of the company within sixty days after October 1 and the extension of the loans made it appear obvious to us that we had not received proper service and that the bank bore responsibility.

There was some discussion, of course, of these points. Mr. Garvin did not take issue with our thinking but proceeded then to describe their position based, as he said, on the facts. Their statement is simple and clear. They claim to have had no early knowledge that Topper was in trouble until November and December. The expansion of the bank loans was not an unusual procedure during a period of building up inventory for the Christmas season. They were in contact with the company, they were looking at the records, but they were not aware, they say, of the substantial buildup in returnable inventory against which they were lending on a receivable basis. Topper's record in the 1970 season was good. Several of their items had achieved all types of sales records and there was no reason to believe that what they were being told and shown was not the fact. When Mr. Garvin stated that we should have known, because this was a factored account, that the risk was great, I told him that was a meaningless statement because there are good and bad quality factored accounts. It is a respected and a reasonable way for some kinds of companies to finance operations, particularly seasonal ones. Thus to claim that being a factored account with a responsible institution was certainly not an excuse in our opinion for not making a loan.

There is one weakness in our argument which he mentioned and which I did not discuss. Not only were the receivables factored but FMC had a lien on all other assets of the company. He states that when Ford Motor Credit made a $7 million loan their people checked the books and records of the bank on Topper and concluded that the only way to make the loan was on a secured basis. Thus Ford Motor Credit had some loss, FMC lost $2.3 million, or at least that is their estimate, but the security which both of them enjoyed aided significantly in the recovery.

Mr. Garvin stated that he would inform Mr. Wriston of our discussion promply upon the latter's return. In response to a direct question, he stated the bank felt in all sincerity that they had responded to our inquiry. If we had asked them for an investment opinion they probably would have handled it differently. I told him that was their responsibility since we told Mr. Jeffers the nature of our interest, asked for his help and it was Mr. Jeffers who directed us to Mr. Waldman. If this were not the right person to give us information, then Mr. Jeffers shared responsibility.

As far as the bank is concerned, except for the upcoming conversation with Mr. Wriston, they do not feel vulnerable to our attack. They understand if we do pursue our legal course.

W. H. Lang
November 8, 1973

A 3559

10

PX 1411

Memorandum to Mr. Mole

August 19, 1971

Topper Corporation

Topper's present management and balance sheet seem durable enough to survive if our judgment of the entire toy industry is reasonably accurate.

The industry is growing, despite little stimulus from demographic changes, and is in the process of concentrating towards a group of major companies who can finance national distribution, promotion and a flow a new products. It is intensely competitive, but I am impressed by the thoughtful, controlled approach now being taken by Topper. My field visit to three major Bergen County toy stores (with two consumers aged 6 and 9) convinced me that the product quality ranged from good to superior, was well packaged and priced to meet a range of child needs and family income levels.

In summary, I feel a convertible debenture issue would be a prudent investment despite the turbulent history of 1963-67. It has very substantial appreciation potential if company goals are met and I believe the marketing risks that will determine their ability to meet these goals are less critical to our debt position than the risks associated with a high technology, narrow product line or limited market company of similar size. Therefore, while Topper generates an initial reaction of skepticism it seems both an intriguing and sound financing.

Graham O. Harrison

A 3560 PX 1413 USX Molé C

Memorandum to Mr. Molé   February 23, 1972

CONFIDENTIAL

Topper Corporation

FNCB

The following thoughts relate to the Pension Fund's position vs. FNCB. In that I did not attend the meetings at the bank where the bank's possible responsibility to us was discussed, my analysis and speculations are based solely on Mr. Molé's four memoranda covering those meetings.

My general conclusion is that it is premature to become discouraged over what so far appears as lack of progress with the bank. Matters have pretty much developed along what was a highly predictable course, considering the implications of fraud surrounding Topper and that there are so many different parties involved in Topper's picture. It seems perfectly natural to me that the bank would adopt the position it has - that it feels no responsibility for our investment. There is almost no other tenable position it could take safely, at this particular time.

As for our handling of the matter with the bank, there is nothing I would change in the approach we adopted. We are pretty much where we should be at this stage, and well situated to press further for some adjustment in our position. To recount, we went to the Bank's chairman, recited the fact as they appeared to us, and obtained a commitment that they would be investigated. Our pressure for a remedy has been relatively moderate thus far, compared to what it could be if it were decided to go all out. The bank certainly recognizes this. Possibly it considers the matter closed with its polite disclaimer of responsibility, but I very much doubt it. Rather, the bank's handling of the situation suggests that it is seriously concerned as to where it is going to come out with respect to a very big customer. The bank is in an embarrassing spot from which it can only lose, and it has a lot at risk. To review - the bank officer in charge of the U.S.Steel account, followed good banking practice in trying to provide service to a valued customer. Subsequent to our informing him of our possible interest in a Topper investment, he requested a fellow officer who handled Topper's financing at the bank to call the Pension Fund and discuss the credit. We believe that instead of helping us, this officer could not resist the opportunity to reduce what was, to him, an obviously weak loan. Our complaint is mainly for what he did not say. For example, he did not say that Topper was habitually slow pay in the trade - he did not inform us that Topper was having to borrow increasingly beyond the bank's normal factoring limits or that the bank was making temporary excess loans on a month-to-month basis. He had to know, but did not reveal that Topper's receivables were becoming increasingly "ineligible" for loan purposes. Instead of providing this type of frank informati he encouraged us to deal with Topper, saying that he knew of no problems nor did anticipate any. Then Topper totally collapsed within ten weeks of our involveme

CONFIDENTIAL

Topper Corporation - Memorandum to Mr. Mole February 23, 1972

Naturally, the bank can scarcely believe much less admit to this sort of customer abuse when its business rests so heavily upon the giving of good service. Its problem now is dealing with a customer who feels he was taken advantage of, by his own bank, when the circumstantial evidence is so damaging. Mr. Mole's last memorandum dated February 16th, pretty much exposes the bank's weakness. Jeffers and Garvin of the bank, disclaimed bank responsibility to us by saying that we should have recognized the risk in Topper because it was a factoring credit. At no time was any denial made as to Mr. Mole's prior recitation of what we thought the facts were. Saying, "you should have known better anyway", is not the answer I would like to have to give to a charge of misleading and incomplete disclosure. In fact, it was no answer at all.

I think it is probably significant that the reply to Mr. Mole came from Jeffers and Garvin - not from Wriston to whom we took our problem nor from Scott, to whom Wriston said he would direct the matter for investigation. The bank has left a higher tier open, knowing that a further appeal from us has to be a virtual certainty. We can also assume that Jeffers' role as spokesman reflects increasing concern for his keeping the Steel account. The point is that accounts like ours just aren't allowed to go up for grabs and we have ample basis for being irate.

The decision we face now is whether to exert a bit more muscle on the bank to come up with a fair and acceptable solution for us. In that initially we asked only to be included under the secured umbrella, the bank knows that we do not require the moon. All in all, I think something can still be done with the bank although it won't come voluntarily.

As for possible litigation, that is not a very creditable threat for us in the bank's eyes. It would just be too spectacular and besides, we have a better club if we want to use one.

John G. Van Deusen

A 3562 **MEMORANDUM** P. EXH 1417

TO Mr. G. C. Weir FROM Mr. L. C. Hieronymus DATE August 17, 197

Topper Corporation

On August 11, I visited the Company's show room located in New York City at 23rd and Broadway and its headquarters and main manufacturing plant in Elizabeth, New Jersey.

Mr. Henry Orenstein, President, is the key to the Company's success. He is 48 years old and has a great range of knowledge, being very well versed in all of the Company's operations. Mr. Orenstein is a creative genius and is very instrumental in product development. In touring the show room, I was impressed by the number of promising new toys in the present product line that are making big contributions to sales in 1971.

With a seasonal business and heavy advertising outlays on short lived products, accurate earnings projections are extremely hard to make. As a consequence of having to be successful on promotional campaigns year in and year out, the reliability of these earnings forecasts are highly suspect. In Topper's case, for the fiscal years ending 1971 and 1972, expected results have an exceptional degree of certainty. The reason for this highly visible increase in earnings is that for 1971, the Company has already received $53 million in orders. Total sales for 1971 are projected at $68 million and the next two months customarily represent the heaviest part of the ordering season. If Topper should reach the projected $68 million in sales volume, net earnings should attain $2.7 million or $.77 per share. For fiscal 1972, Topper will benefit from a full year of Sesame Street products. Sesame Street sales will start in November 1971, with approximately $5 million of goods sold in that year. In 1972, volume for Sesame Street is projected conservatively at $20 million, with total Company sales reaching $78 million. In addition to the benefits received from the increased volume of sales, charges for extraordinary depreciation will be $1.2 million less in fiscal 1972. A combination of increased volume and less depreciation will directly improve operating margins and net income is projected to be $6.3 million or $1.64 a share.

In the toy business, new products have to be constantly introduced. Topper appears to be in a very prolific stage of new toy introduction. In the Sesame Street line, the Company will be introducing six products in 1971. "Walking Letters" is an impressive educational product. The "Walking Letters" waddle on a track into a verifying position forming three letter words. Upon verification by the child, a right answer makes "Big Bird" pop up with a sign saying "right" and a wrong answer makes the "Walking Letters" fall over. The letters are made of very durable plastic and will wholesale around $4.80. Another new product, the "Spell-a-Phone", has even more educational appeal. The face of the phone has letters in the dial with a matrix of 10 clear plastic buttons on the right. Using a telephone book, the child dials the letters for a word. On dialing the letters correctly, one of the 10 clear plastic buttons will light up. Upon pushing the button, the child hears a description of the word that he has spelled. This product will wholesale around $8.00. These two products alone could easily do $20 million in volume a year. Topper has additional Sesame Street products that were equally impressive, although they represented lower unit dollar volume, i.e., puppets and stuffed characters on the Sesame Street show, puzzles, and other educational playthings. In addition, they already have developed several new products which looked very promising. Under the agreement with Children's Television Workshop, the prices of the products developed by Topper are subject to CTW's approval. Of the prices suggested on each product so far, all were accepted by CTW without a single adjustment.

The "Dawn" line of dolls, which was introduced last year, continues to do well, with volume over $30 million already this year. In addition, Topper has introduced a new doll this year called "Smartypants". This is a doll resembling a three to four year old girl which responds to touch. The Company has already received $5 million of orders and is expecting to easily reach $8 million by year end. "Smartypants" has done so well this year that an expanded line will be introduced at the spring show in 1972. Another doll, with the code name "Baby Baby", is scheduled for introduction in 1972. Henry Orenstein is more enthusiastic about the success of this doll than he was with "Smartypants".

Management Information

Topper has made extensive use of computer for management information purposes. In the field of marketing the Company has developed a program enabling it to spot stores where items of toys are moving slowly or not being sold at all. Jack Rose, Senior Vice President, Finance, explained that sometimes a line of the Company's products which are doing particularly well have simply been overlooked by the purchasing agent. In order to get this purchasing agent to stock Topper's line sometimes a telephone call is all that is necessary.

In addition to marketing, Topper, by the use of the computer, maintains a perpetual inventory system. This computerized inventory system permits much greater control of production by preventing stock outs of raw materials. With the rapid feed back that the Company gets from the daily computer runs, scheduling of additional production on a hot item can be made in a very short time. Another aid to production and pricing of a product is an extensive cost accounting system. With good cost control Topper knows exactly the degree of profitability of each product in its line.

Production

The Company's manufacturing facilities at Elizabeth, New Jersey comprise one million square feet of space. In this sprawling complex, the buildings made of brick are at least 15 to 20 years of age. Included in the facilities is a railroad siding used by the Company for receiving and shipping of materials.

Throughout the tour of the various production lines, management continually stressed quality control. As an example, Henry Orenstein believes that the "Dawn" doll sells on the distinctive features of the face. By maintaining very stringent quality control in its production, the minutest details in "Dawn's" features are highly visible.

Philadelphia & Reading - Mickey Newman

Since the Company's incorporation in 1966, Topper has been under capitalized. How this resulted is explained by a series of events connected with Philadelphia & Reading. In 1953, Henry Orenstein started a jobber operation by marketing mainly dolls through supermarkets. Henry was financed by his uncle Marrius Orenstein, who never was or is active in management of the firm. Under the jobber operation, no manufacturing was involved. The retail outlets pursuant to this program were permitted to return unsold merchandise ordered for sale during the Christmas season. Wanting to grow via vertical integration into manufacturing and needing capital to do so, Henry and Marrius sold out to Philadelphia & Reading, with Henry continuing to run the business.

In 1963 to attract customers, discount chains began running promotional programs by cutting prices on toys. As a result of the discounters under selling the supermarkets, the Company was forced to eliminate its supermarket business and started distributing through traditional toy outlets. The difficult transition to new marketing outlets was accompanied by a decline in profitability. With inventory piling up, the auditors at the end of 1965 were urging Philadelphia & Reading to recognize a write-off. Mickey Newman, Chairman and President of Philadelphia & Reading refused to recognize the impending loss and decided he would prefer to get out of the toy business. In the first half of 1966, under its repurchase agreement with retailers, the Company received back large numbers of toys resulting in large write-offs and losses. In negotiating to sell the Company to the Orensteins and a group of private investors at price based on the assets at 12/31/65 was agreed upon. As a result of over $7 million in losses, the assets had to be made up and an independent appraiser was brought in to revalue the fixed assets consisting mainly of tools and dies. Due to the write-up of assets that substantially inflated their value, Topper incurred heavy losses and, in 1967, Philadelphia & Reading agreed to the forgiveness of the $19 million note that was part of the purchase price.

The $20 million borrowed in 1966 from Manufacturers Hanover and First National City Bank by pledging substantially all of its assets was obtained for the cash portion of the $49,000,000 aggregate purchase price of the Company. The bank debt was scheduled to be paid off with the liquidation of inventories and receivables from the supermarket business. As it turned out, the inventories and receivables from the supermarket business were insufficient to repay all the bank loans. In addition, the on-going business was slower in generating cash than originally expected and required additional loans. The banks have been on a secured basis since the start of the Company in 1966. If Topper does as well as projected and secures $12 million of long-term debt, the banks have agreed to review the loan agreement of the Company in the spring of 1972 towards going unsecured.

Ford Motor Credit

Topper has a commitment from Ford Motor Credit for $7 million to be taken down this year. The loan is for six years and is to be secured pari passu with the banks. Upon the banks going unsecured and provided that (a) net income before taxes and extraordinary depreciation for 1971 is $6.5 million and income available for fixed charges covers interest 3.5 x or (b) $5,000,000 of junior capital is raised, the secured loan will revert to an unsecured term loan. Ford's loan agreement has a number of protective covenants, the most important of which are:

1. Net Working Capital maintained at not less than $20,000,000.
2. Net Worth maintained at no less than $15,000,000.
3. Maximum bank loans of $16 million.
4. Dividends limited to 40% of earnings.

In October 1966, assets and business of Delaxe Reading Corporation were sold to Deluxe Topper Corporation for $22,000,000 cash and $27,000,000 of notes receivable in various installments to December 31, 1971. During the period from October 5 to December 31, 1966, Deluxe Topper suffered an unexpectedly large loss. In view of Topper's financial condition, $19,000,000 of these notes were written off resulting in a $9,875,000 charge to retained earnings (net of tax benefits).

LCH:ml

A 3568

MEMORANDUM

P. EXH 1419

TO GCW FROM LCH DATE 8-18-71

Topper Corporation

On August 17, Jay Inglis, CBWL-Hayden, Stone Inc., called to give us the latest changes in the terms of the proposed loan. Since several interested participants had expressed a desire for more call protection, the present two-year non-call period will be lengthened to around four or six years. In addition, the one-year moratorium on registration will be shortened to approximately five months or sometime subsequent to the Company 1971 audit being available in late February.

One of the proposed lenders has asked for an analysis of the break even level of Topper. The Company is presently in the process of reading this report which should be available on Thursday, August 19. The Company is also preparing a summary of their management information reports which they will be sending along to us shortly.

On questioning Jay on the impact of the 10% surtax on imported goods, he explained that the Company had done an analysis and concluded that there are two alternatives open to them. One, prices could be raised by the 10% increase and thereby pass on the cost. Presumably the price freeze would not affect imported goods that are affected by the 10% surcharge. The other alternative would be to absorb the cost and expect the additional volume resulting from the relatively lower price to make up the additional cost. In the event that prices are not raised and volume not increased, the 10% surcharge is expected to adversely affect net after tax earnings by $200,000 or by $.07 a share. Topper presently pays a tariff on its imports of 20% and, with the new increase, will be paying 30%.

With the good response to this proposed convertible subordinated financing, Jay said the total amount of the issue would be raised from $5 million to $7 million. American National Life Insurance Company has already circled

$1 million. The U. S. Steel Pension Fund has indicated a very serious interest and has progressed into the later stages of having approved $3 million. Various other pension funds have circled $2 million.

LCH:ml

[illegible] A 3570

PX 1420

Topper Corporation elizabeth, new jersey 07208 tel. 201-351-4400/212-233-4380

Jack J. Rice

August 9, 1971

Mr. Leonard Hiernymas
Connecticut Mutual
140 Garden Street
Hartford, Connecticut

Dear Mr. Hiernymas:

Pursuant to your request I have enclosed a copy of our Financial Statements for the six months ended June 30, 1971.

Listed below are ten of our largest customers.

Lionel Leisure Inc.
2951 Grant Avenue
Philadelphia, Pa. 19914 - Mr. Leonard Wasserman
215 - 677-4800

Blatt Distributing Company
14450 Industry Circle
La Mirada, California 90638 - Mr. Jerome Blatt
213-868-0811

Shepher Distributors & Sales Corporation
2300 Linden Blvd.
Brooklyn, New York 11208 - Mr. Irving Monchik
212-649-2525

S. S. Kresge Company
2727 Second Avenue
Detroit, Michigan 48232 - Mr. Howard Tweitmeyer
313-965-7300

Northern Specialty Sales, Inc.
6635 N. Baltimore
Portland, Oregon 92203 - Mr. Louis O. Buchwach
503 - 286-0641

A 3571

Vornado, Inc.
174 Passaic Street
Garfield, New Jersey 07026 - Mr. William Getchell
201-773-4000

Halco Industries, Inc.
96 Old Colony Avenue
Taunton, Mass. 02718 - Mr. Maurice A. Halperin
617 - 823-1791

Grandway Stores
East 51 Midland Avenue
Paramus, New Jersey - Mr. Stanley Weiner
201-261-9200

W. T. Grant Company
1441 Broadway
New York, New York 10018 - Mr. Matthew Bailey
212-564-1000

E. J. Korvette
450 West 33rd Street
New York, New York 10001 - Mr. Abe Rosenblatt
212-560-6500

If you require any further information, please do not hesitate to contact me.

Very truly yours,

Jack J. Rose

Jack J. Rose

JJR:rc
encl.

A 3572

[illegible] 1421

MEMORANDUM

TO File

FROM ICH

DATE 8-25-71

Topper Corporation

In talking with the buyer of toys (Mr. Matthew Bailey) at W. T. Grant, he said that he had known Henry Orenstein for years and regarded him as being very creative and a sharp businessman. Grants ordered over $2 million in toys last year and expects to do the same or a little larger volume this year. Bailey was very guarded in his comments about the success of any toy from season to season. Due to the tough nature of the industry, a hot item one year, like "Dawn" dolls, might not sell at all well the next year. Mr. Bailey thought that the "Dine-A-Lings" and "Zoomer Boomers" would probably be good sellers if the T. V. advertising continued. Without the T. V. advertising, these products would not have much sales volume. In general while he thought well of Topper, the Company did not stand above some other companies such as Louis Marx in plastic toys ("Big Wheels"), Milton Bradley in games, and Ideal.

ICH:ml

[illegible]

A 3573

MEMORANDUM

[illegible] 1422

FROM: L. C. Hieronymus **TO:** File

Topper Corporation

In checking with a few of the company's major customers, I talked with Abe Rosenblatt of E. J. Korvette on August 24. He was high in his appraisal of Topper describing it as dynamic and very aggressive. The lion's share of the available shelf space is given to the company's products. Abe said that he has a good working relationship with Topper, which ships immediately upon request and helps toys move off the shelf by effective advertising on television.

Abe indicated that 1971 was not a good year for toys but in spite of this, the Dawn line of dolls was doing pretty well and Smartypant, a relatively high-priced doll, was doing exceptionally well for this time of year. The Topper line of low-priced toys should do very well this year given the present economic climate.

LCH:cmk

A 3574

E. EXH 1423

August 30, 1971

Industrial Summary Sheet

Name of Company: Topper Corporation

Name of Security: 7 1/2% Convertible Subordinated Debentures due 1986

Interest Rate: 7 1/2% Price: 100

Amount of Issue: $6,000,000 to $7,000,000

Maturity: 15 years

Conversion Price: Convertible into common stock at $15 a share. ~~Tentatively convertible into common stock at a price equal to the average of the closing prices for 30 consecutive trading days prior to the closing; provided that in no event will the price be above $18 or below $14 a~~ share.

Offering: Private Placement through CWM-Hayden, Stone Inc.

Takedown:

Sinking Fund: Commencing in the sixth year, $600,000 annually which will provide for the retirement of 90% of the issue prior to maturity. The Company will have the noncumulative option on each sinking fund date to prepay an amount of the Debentures not exceeding the mandatory sinking fund payment.

Redemption: Noncallable for four to six years; otherwise callable at 7 1/2% in the first year with the premium declining as evenly as practicable to zero in the last year.

Notwithstanding the above, at any time subsequent to the Company's common stock trading for at least 30 consecutive days at a price representing a 50% premium over the conversion price of the Debentures, the Company may not redeem any of the Debentures.

Present Holdings: None

Use of Proceeds: To reduce secured bank borrowings incurred to carry inventories and accounts receivable.

Registration Rights: The holders of 40% in principal amount of the Debentures will have the right to request two free registrations of the underlying shares of common stock about five months from the date of the issuance of the Debentures. Also the holders will be entitled to one free piggyback registration.

Proposed Participants:

U. S. Steel Pension Fund	$3,000,000
American National Life Insurance Co.	1,000,000
Princeton University Endowment Fund	1,000,000
Various Small Pension Funds	1,000,000
	$6,000,000

History:

Topper Corporation was organized in 1966 to acquire the assets and assume the liabilities of Deluxe Reading Corporation, a subsidiary of Philadelphia & Reading Corporation, engaged in the manufacture and distribution of toys. In 1960, Deluxe Reading had acquired this business from Henry and Marvin Orenstein, who at that time distributed toys through supermarkets. In the early 1960's to attract customers to their stores, the discount chains initiated a policy of cutting prices on toys heavily advertised on television. The intense competition created by increased advertising and lower toy prices virtually eliminated supermarkets as a profitable outlet for toy distribution. In 1964, the Company initiated the distribution of its products through jobbers, wholesalers and conventional retail stores. The results of operations for the next several years following this change were adversely affected, reflecting the high costs involved in changing to a totally different method of distribution.

Business:

Products: The Company's products include fashion dolls with clothing outfits and accessories, toy household appliances, dolls, steel trucks, robots and dye cast miniature cars and racing sets. The Company believes that its toys usually retail at estimated prices ranging from $.75 to $20 and that approximately 60% of its net sales in 1970 were of products in the $.75 to $6 retail range and approximately 25% of net sales in 1970 were of products in the $6 to $10 retail range. The Company estimates that more than 95% of its 1970 net sales was derived from items introduced since the end of 1968.

The Company's products, consisting of approximately 225 different items, fall into the principal categories summarized below:

Dawn Fashion Dolls with Clothing Outfits and Accessories

In 1970 the Company introduced Dawn, a 6 1/2" fashion doll with clothing and accessories. The Dawn line, which was introduced at the 1970 Toy Fair (an industry trade show held annually in New York City during the first calendar quarter), included 4 doll packages, 40 clothing outfits and 8 accessories. The 1971 *Dawn* line includes 19 doll packages, 75 clothing outfits and 1[illegible] accessories. *Dawn* is a relatively low-priced line of merchandise which is designed to strengthen the Company's goal to minimize heavy seasonal fluctuations through emphasis on toys which sell on a year-round basis.

Toy Appliances

The Company manufactures a line of girls' toys under the name *Suzy Homemaker*. This line was first introduced in 1966 and has grown to include ovens, popcorn poppers, juicers, washing machines, vanities, blenders, mixers, sweepers, vacuum cleaners, irons, hair dryers, ice cream and candy makers and soda fountains. The chief attraction of these items is that they are functional. For example, cakes can actually be baked in the ovens.

Dolls

The Company manufactures and markets dolls featuring unique mechanical actions. New dolls are developed and introduced annually and are generally marketed for no longer than a few years. Among the better known dolls offered in the past are *Baby Magic*, *Li'l Miss Fussy*, *Baby Party*, *Baby Catch-A-Ball* and *Baby Luv'N Care*. A new doll, *Smartypants*, which is programmed to respond to touch with specific replies, was introduced at the 1971 Toy Fair.

Steel Trucks

The Company introduced, at the 1971 Toy Fair, heavy gauge steel trucks and cars, the *Zoomer Boomers*, which are competitive in quality and price with similar existing items which have long been an industry staple and which are aimed at the 3 to 6 year old boy, a market relatively new to Topper. Unlike competitive items, however, the *Zoomer Boomers* have been designed to operate on a low-priced snap-in motor which is interchangeable among the various *Zoomer Boomer* trucks and cars.

Robots

An entire line of robots, Ding-A-Lings, which utilize snap-in, interchangeable motors was introduced at the 1971 Toy Fair. The Ding-A-Lings are low-priced items which are expected to sell on a year-round basis. In addition, this line includes sets utilizing track on which the robots can operate. A higher priced robot, the King Ding, is expected to be more of a seasonal Christmas item.

Die-Cast Miniature Cars and Racing Sets

In 1969, the Company brought out a line of die-cast miniature cars, plastic track sets and accessories under the name Johnny Lightning. A low friction wheel bearing enables the cars to roll at fast speeds. In addition to a number of gravity sets, the Company introduced the Johnny Lightning Rocket Sets. These sets, which are manually powered and operate without batteries or electricity, consist of a continuous race track. At the 1971 Toy Fair, the Company introduced the "Big Switch" racing sets, which enable the child to create a car racing system similar in concept to model railroading.

Marketing:

The Company maintains a showroom in New York City in which it displays its various products. The products themselves are marketed by a sales force of approximately 60 persons to national and regional chain stores and through wholesale distributors. No single customer accounts for as much as 10% of total sales.

In recent years the Company has emphasized the introduction of low priced toys designed to sell on a year round basis and marketing programs designed to encourage customers to place early orders and accept early shipments. This approach has to some extent permitted the Company to increase its production and shipments in the early months of the year with a related increase in efficiency. However, shipments during the final half of the year are still greater than those during the first six months.

Research and Development:

Although the Company has in the past established successful lines of products, its business is still largely dependent upon its ability continually to develop new products and to modify or improve existing concepts. It therefore employs approximately 60 persons--designers, artists, model makers and engineers--to design and develop new products. In 1970, the Company spent approximately $1,025,000 on design and development of toys. Although the Company relies primarily upon its own staff for development of new products, it also, from time to time, acquires rights to items from independent inventors and toy designers.

Manufacturing:

The Company's principal manufacturing and warehousing facilities are located in Elizabeth, New Jersey. Topper also imports small dolls and their accessories, small appliances and some components which are manufactured by foreign contractors, principally in Hong Kong and Japan. In 1970, goods purchased abroad accounted for approximately 41% of total purchases; in 1971, it is anticipated that goods purchased abroad will account for approximately 55% of total purchases. Topper had been paying a 20% excise tax on its imports and with the recent increase, will be paying 30%. The Company has projected that the 10% surcharge will not significantly penalize net after tax earnings, with expected results for 1971 being reduced $.05 a share.

Recent Developments:

Introduction of Sesame Street Line

In March 1971, the Company entered into a royalty agreement with Children's Television Workshop ("CTW"), producer of the children's educational television program "Sesame Street". Pursuant to such agreement the Company, through a wholly-owned subsidiary, will design, develop, manufacture and distribute, under the "Sesame Street" name, various educational playthings including representations of certain of the characters appearing on "Sesame Street." The type, nature and quality of the items produced, as well as marketing and advertising plans, will be subject to the approval of CTW. The agreement remains in effect until December 31, 1974, but includes provisions for subsequent sale of certain items.

Discontinued Operations

In 1970, the Company introduced, through its wholly-owned subsidiary, Youth Care, Incorporated, a line of toiletries under the Young 'N Free. These toiletries were specifically formulated for and marketed to young girls. The Company has announced its plans to discontinue its toiletries operations, which incurred a loss in 1970 of $876,164 (net of Federal income tax benefits). As a result of this decision the Company has also provided for disposal losses of $235,204 (net of Federal income tax benefits).

A 3580

Pro-Forma Capitalization at 12/31/70 (000's)

		%
Long-Term Debt		
7 1/2% Conv. Sub. Debs. due 1986 (This issue)	$ 5,000	15.0
∅ 10% Subordinated Notes due 1/31/72	3,850	11.5
* % Senior Secured Notes due 1977	7,000	21.0
Installment Notes Payable	107	0.3
Total Debt	$15,957	47.8
Stock & Surplus		
5% Cum. Preferred PV $100	$ 1,980	5.9
Common PV $1	3,686	11.1
Capital Surplus	8,994	27.0
Retained Earnings	2,748	8.2
Total Equity	$17,408	52.2
Total Capitalization	$33,365	100.0

* Interest rate 5 1/2% above prime commercial rate with a maximum of 14%, to be held by Ford Motor Credit Company.

∅ Approximately 40% of the issue held by persons closely affiliated with the Company; the rest held by private investors.

Current Ratio: 1.9 to 1

Pro-Forma Balance Sheet Ratios 12/31/71

Net Working Capital $25,763,000 equal to $161 per $100 of Long-Term Debt.
Net Tangible Assets $33,283,000 equal to $209 per $100 of Long-Term Debt.
Market Value of Equity $57,185,685 equal to $359 per $100 of Long-Term Debt.

3,689,399 Common Shares @ $15.50 = $57,185,685

Net Sales and Coverage of Pro-Forma Interest ($2,040)(000's)

Year 12/31	Net Sales	Available Pre-Tax	Actual Interest	Times Pro-Forma Interest Earned Pre-Tax
*1966	$19,322	$[illegible]	$1,223	-
∅1967	30,293	819	1,401	0.4
1968	35,036	1,816	742	0.9
1969	54,723	4,276	1,560	2.1
1970	63,946	5,565	2,638	2.7
1971 Proj.	68,000	7,484	2,311	3.7
			Five-Year Average	2.0

* In 1966, for nine months of operations ended October 1966.

∅ In 1967, for eleven months of operations ended December 1967.

Pro-Forma Interest

$5,000 @ 7 1/2%	=	$ 375
7,000 @ 12 1/2%	=	875
(A) 9,760 @ 8%	=	781
107 @ 8%	=	9
		$2,040

(A) Assumes an average annual balance of $9,760,000 at 8%.

Net Earnings From Continuing Operations and Per Share Data

Years 12/31	Net After Tax (000's)	Earnings Per Share	Price Range Hi	Price Range Low	P/E Range Hi	P/E Range Low
1968	$ 407	$ .18	*	*	-	-
1969	1,282	.51	*	*	-	-
1970	1,464	.51	7	3	14	6

* Prior to June 1970 no public market existed for the Common Stock of the Company.

6 mos. to June 30						
1970	484	def.	6	4	12	8
1971	307	.08	18	5	23	6

Projected Net Earnings and Per Share Data

Years 12/31	Net After Tax (000's)	Fully Diluted Earnings Per Share (A)	P/E Multiple Assumed	Estimated Stock Price
1971	$ 2,690	$ .77	10	$ 7.70
1972	6,323	1.64	10	16.40
1973	8,406	2.17	10	21.70
1974	11,347	2.91	10	29.10
1975	12,787	3.27	10	32.70

(A) Assuming full conversion of Convertible Debentures at $18 a share, to give 3,967,000 shares outstanding.

Prospects and Comments:

One of the major weaknesses of the Company has been its dependence on only a few major products which were marketed for no longer than a few years. Therefore, the Company's business was largely dependent upon its ability to continually develop major new products each year. In obtaining the contract to manufacture a line of educational playthings under the Sesame Street name, the Company has a strong marketing aid to enter the pre-school educational toy market. The Company has already developed six new products for Sesame Street and expect at least $5 million in sales for 1971. In 1972, sales of $15 to $20 million from these and additional products are projected. The educational toys should also smooth out the sales curve so that no longer will 50% of the sales occur in the last six months of the calendar year.

With the placement of this Convertible Subordinated issue of at least $5,000,000 and $7,000,000 of Senior Notes due 1977, the Company's banks have indicated a willingness to review Topper's credit in the spring of 1972 towards possible going unsecured. Topper's financial strength and on-going viability will be enhanced considerably with this increased financial flexibility. In addition, the $12,000,000 of long-term financing will represent a much lower interest cost than the 13% to 14% effective rate formerly charged by the banks.

In the first six months ended June 30, 1971, the Company showed a net profit of $307,000 versus a deficit of $[illegible],000 for the same period last year. This is the first time in the Company's history that it has shown a profit for the first half of the year. The improvement for the first half of 1971 has been the result of the good response to Dawn and a new doll, Smartypants.

With a seasonal business and heavy advertising outlays on short lived products, accurate earnings projections are extremely hard to make. As a consequence of having to be successful on promotional campaigns year in and year out, the reliability of these earnings forecasts are highly suspect. In

Topper's case, for the fiscal years ending 1971 and 1972, expected results have an exceptional degree of certainty. The reason for this highly visible increase in earnings is that for 1971, the Company has already received $55 million in orders. Total sales for 1971 are projected at $68 million and the next two months customarily represent the heaviest part of the ordering season. If Topper should reach the projected $68 million in sales volume, net earnings should attain $2.7 million or $.77 per share. For fiscal 1972, Topper will benefit from a full year of Sesame Street products. In addition, an exciting new doll is scheduled to be introduced. Topper currently appears to be in a very prolific stage of new product introduction.

In 1972, total Company sales should reach $7[illegible] million. In addition to the benefits received from the increased volume of sales, charges for extraordinary depreciation will be $1.2 million less in fiscal 1972. A combination of increased volume and less depreciation will directly improve operating margins and net income is projected to be $6.3 million or $1.64 a share.

In order to achieve a 15% overall rate of return for three year period on this deal, the common stock price would have to reach $23 in 1973. Using the Company's projections and a conservative price earnings multiple of 10, the stock would sell at about $22 in 1973 for an approximate return of 14%. If Topper only does half as well as projected, the growth rate starting with 1971's fully diluted EPS of $.77 a share, would be over 18% a year. The average price/earnings multiple for the five largest toy manufacturers is around 27 times and Topper with a 18% growth rate should at least command the industry average. At a 27 multiple and one half the expected 1973 earnings of $2.17 per share or 1.09, an expected price for the common in 1973 could be around $29. With a price of $29, an overall return on this deal would be 24%.

While the anticipated return on this deal could easily be as high as 25%, there is also above average risk in this situation. Topper's product line is relatively narrow with heavy dependence on new products. The Company estimated that more than 95% of its 1970 net sales was derived from items introduced since the end of 1968. The introduction of Sesame Street educational toys should mitigate this dependence on major new products, but a major portion of projected sales and profits will still come from the Topper line. Due to the heavy advertising expenditures (15% of sales in 1970) on a few products, a successful marketing program is a must. Mr. Henry Orenstein, President of the Company, is 48 years old. He has an instrumental role in product development and creation of advertising, and the Company is very dependent on his continuing efforts. In participating in the Convertible Subordinated Debentures, we are junior to all short-term bank debt and to $7 million long-term debt.

Since 1966, Topper has made steady progress in both sales and operating margins. In comparing the top six toy companies, Topper's sales increases are second only to Mattel's. The Company's operating margins after depreciation charges are slightly below the industry average. The lower than average operating margins were due principally to excess depreciation charges associated with the write-off of certain tooling acquired in 1966 when the Company purchased the assets from Deluxe Reading Corporation. In the Company's projections, the sales for the next several years from the Company's Sesame Street product line are shown to grow at a substantially faster rate than total sales. Operating margins are indicated to improve as a result of lower costs of goods sold and selling and advertising expenses. Lower cost of goods sold are anticipated due to lower excess depreciation charges. In addition, a combination of relatively fixed overhead being spread over larger sales and costs savings in material and labor provided by increased utilization of manufacturing facilities located in the Orient should reduce cost of sales as a percentage of sales. Selling and advertising expense as a percentage of net sales is expected to decline due to advertising expenses of the Sesame Street program being considerably less than those associated with other Topper products, as heavy television expenditures are not anticipated. In addition, management believes that advertising expense related to sales on standard Topper toy categories will decline over the next five years.

[illegible]:ml

[illegible] A 3586 September [illegible], 1971

E. [illegible] 1425

Executive Committee Memorandum

Name of Company: Topper Corporation

Business: Topper Corporation is engaged in the manufacture and distribution of toys. The Company's products, consisting of approximately 225 different items, include fashion dolls, toy household appliances, steel trucks, robots and dye-cast miniature cars and racing sets.

Issue: $7,000,000 7 1/2% Convertible Subordinated Debentures due 1986

Present Holdings: None

Proposed Participants:

U. S. Steel Pension Fund	$3,000,000
American National Life Ins. Co.	1,000,000
Princeton Univ. Endowment Fund	1,000,000
Various small pension funds	1,000,000
	$6,000,000

Pro-Forma Capitalization 12/31/70:

Capitalization totals	$35,366,000
Total Long-Term Debt	50.8%

Pro-Forma Balance Sheet Ratios 12/31/70:

Net Working Capital $27,763,000, equal to $155 per $100 of Long-Term Debt.
Net Tangible Assets $35,283,000 equal to $196 per $100 of Long-Term Debt.
*Market Value of Equity $55,341,000 equal to $308 per $100 of Long-Term Debt.

* 3,689,000 Common Shares @ $15 = $55,341,000

Sales and Earnings: Net sales have grown from $36.0 million in 1968 to $63.0 million for the year ended 12/31/70. During this same period after tax earnings have grown from $507,000 to $1,500,000 in 1970 ($.51 per share).

Interest Coverage: Pro-forma interest charges on all indebtedness were earned an average 2.4 times pretax over the last two years and on sales of $68 million in 1971, are projected to be covered 3.7 times pretax.

Terms of Issue

Conversion Price: Convertible into common stock at $15 per share.

Sinking Fund: $700,000 annually beginning at the end of the sixth year to retire 90% of the issue prior to maturity.

Refunding: Noncallable for five years, provided that beginning in the third year if the common stock price sells at a sufficiently high premium to the exercise price, the Company may call the Debentures.

PX 1430

TOPPER CORPORATION

NET SALES & PROFIT (LOSS) FROM CONTINUING OPERATIONS

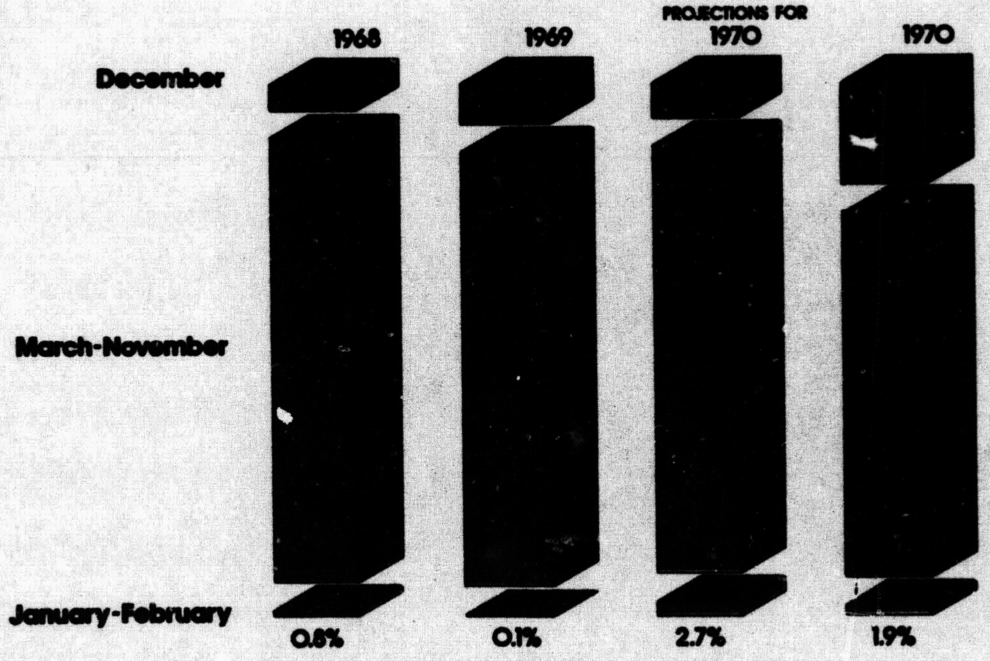
	1967	1968	1969	1970	PROJECTIONS FOR 1971
NET SALES	$30,292,652	$35,036,034	$53,722,774	$63,935,619	$68,000,000
PROFIT (LOSS)	($582,089)	$506,684	$1,282,373	$1,464,495	$2,690,000

SOURCE: Topper Corporation Consolidated Statement of Operations and Topper Corporation Projected Income Statement included within the Private Placement Memorandum (PX 462; Citibank Admission 428)

PX 1431

NET SALES BY MONTH

TOPPER CORPORATION



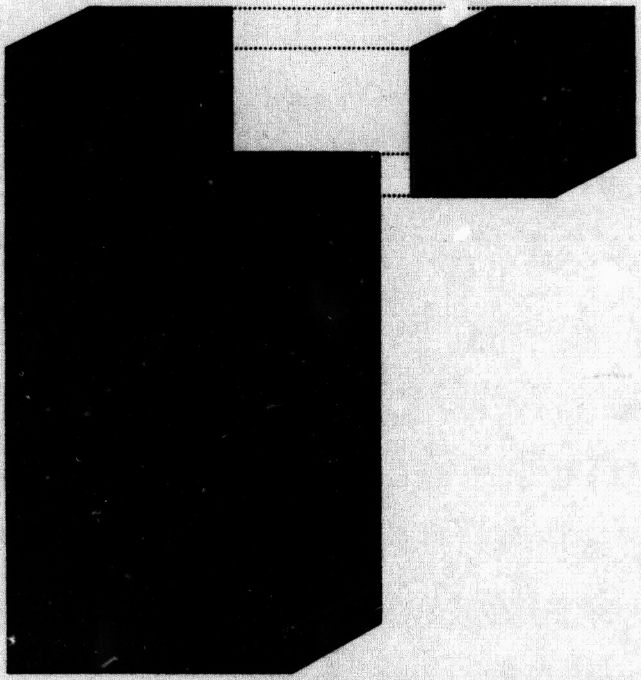
SOURCE:
Topper Corporation Consolidated Statement of Operations pages included within the Topper Corporation (Unaudited) Monthly Consolidated Financial Statements and Supporting Schedules for 1968-1970 (PX 1069, PX 1070, PX 1135-1146, PX 1148-1159, PX 1161-1170; Officers' Admissions 57-58, 62, 1001, 1011, 1069-1080, 1082-1093, 1095-1104) and Topper Corporation Projected Analysis of Receivables and Inventories 1970 Estimated included within Topper Corporation Comparative Financial Statements 1966 through 1968 with Projected 1969 and 1970 (PX 1265/CBX 110);

PX 1432

TOPPER CORPORATION

1970 NET SALES

Original Projection
For Period Ending November 30, 1970



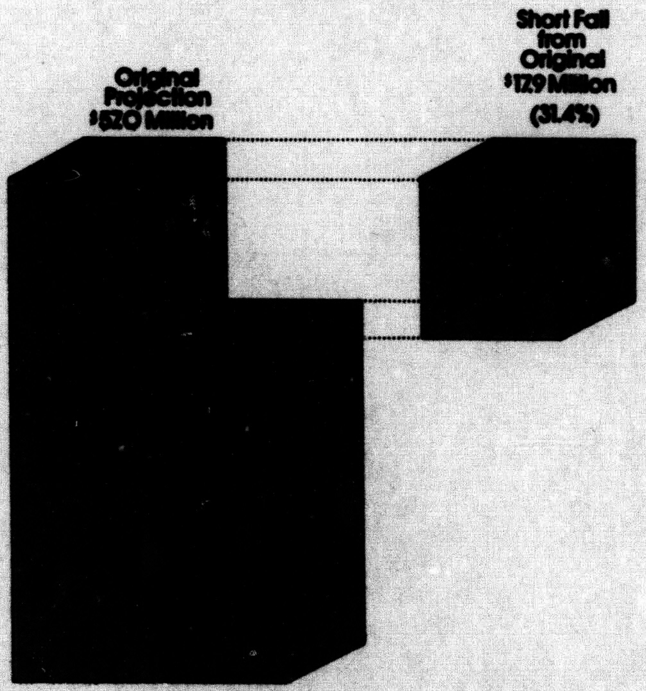
SOURCE: Topper Corporation Consolidated Statement of Operations for the Period January 1, 1970 to November 30, 1970 included within Topper Corporation Consolidated Financial Statements and Supporting Schedules for the Period Ended November 30, 1970 (PX 1170; Citibank Admissions 62 & 1104) and Topper Corporation Projected Analysis of Receivables and Inventories 1970 Estimated included within Topper Corporation Comparative Financial Statements 1966 through 1968 with Projected 1969 and 1970 (PX 1366/CBX 110)

PX 1433

TOPPER CORPORATION

1970 NET SALES

Original & Revised Mid-Year Projections
For June 1-November 30, 1970



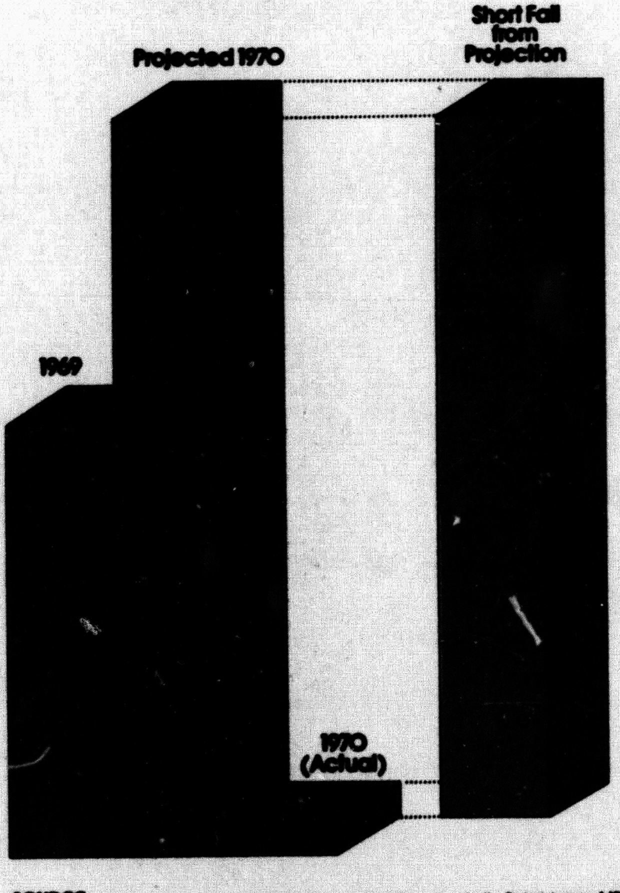
SOURCE: Topper Corporation Consolidated Statement of Operations pages included within the Topper Corporation (Unaudited) Monthly Consolidated Financial Statements and Supporting Schedules for June–November 1970 (PX 1079, PX 1166–1170; Citibank Admissions 62, 1011, 1100–1104) and Topper Corporation Projected Analysis of Receivables and Inventories 1970 Estimated included within Topper Corporation Comparative Financial Statements 1966 through 1968 with Projected 1969 and 1970 (PX 1366/CBX 110) and Topper Corporation Projected Analysis of Receivables and Inventory for the Period June 1, 1970–January 31, 1971 included within Revised Projections 1970 (PX 673/CBX 111; Citibank Admissions 61 & 602).

PX1434

TOPPER CORPORATION

NET PROFIT (LOSS)

For the Period Ended November 30, 1970.

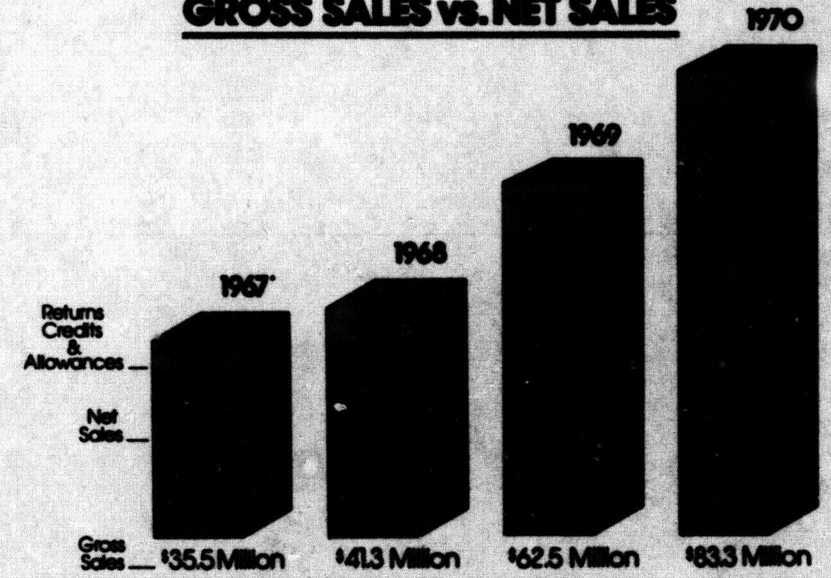


SOURCE: Topper Corporation Consolidated Statement of Operations for the Period January 1, 1970 to November 30, 1970 included within Topper Corporation Consolidated Financial Statements and Supporting Schedules for the Period Ended November 30, 1970 (PX 1170: Citibank Admission 1104) and Topper Corporation Recast Profit and Loss Statements 1966–1968 with 1969 and 1970 Projected included within Topper Corporation Comparative Financial Statements 1966 through 1968 with Projected 1969 and 1970 (PX 1366/CBX 110)

PX1435

TOPPER CORPORATION

GROSS SALES vs. NET SALES



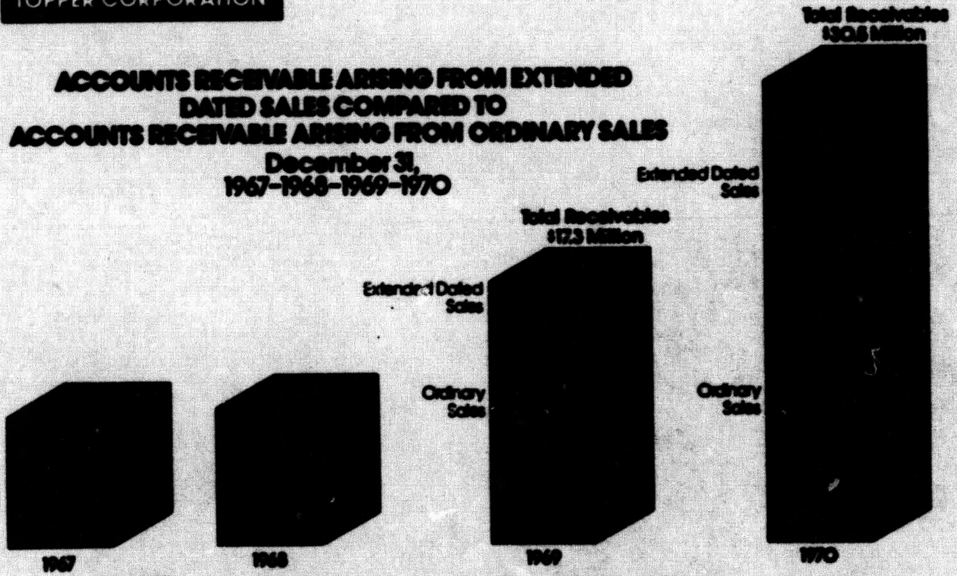
* Eleven Month Period from February 5, 1967 through December 31, 1967

SOURCE: Topper Corporation Summary of Gross Sales, Discounts & Allowances, Returns, & Net Sales As Listed in Prospectus attached to a letter from Julius H. Schwartz to Mr. Conrad K. Sterrett, dated May 6, 1970 (PX 460; Citibank Admissions 119 & 422) and Sales-Gross Year to Date 12/31/70 (PX 1015; Citibank Admissions 119 & 947) and Topper Corporation Consolidated Statement of Operations included within the Private Placement Memorandum (PX 462: Citibank Admission 428)

PX1436 **TOPPER CORPORATION**

ACCOUNTS RECEIVABLE ARISING FROM EXTENDED DATED SALES COMPARED TO ACCOUNTS RECEIVABLE ARISING FROM ORDINARY SALES

December 31, 1967–1968–1969–1970



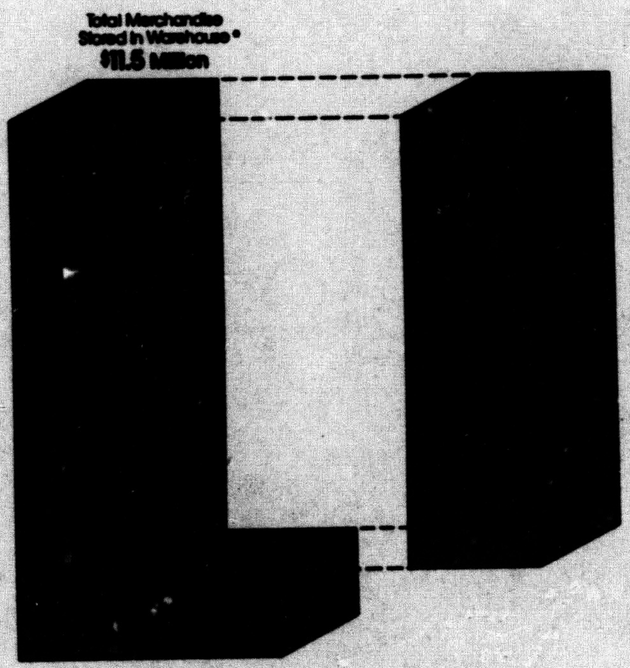
SOURCE: Topper Corporation Consolidated Balance Sheets for the Periods Ended December 31, 1967 and December 31, 1968 included within Topper Corporation Financial Statements for the Year Ended December 31, 1968 with Report of Certified Public Accountants (PX 1147 and Citibank Admission 1031) and Topper Corporation Consolidated Balance Sheet for the Period Ended December 31, 1969 included within the Topper Corporation Prospectus dated June 3, 1970 (PX 854 and Citibank Admission 522) and Topper Corporation Consolidated Balance Sheet for the Period Ended December 31, 1970 and Note 3 to the Consolidated Financial Statements included within the Private Placement Memorandum (PX 462 and Citibank Admission 428)

PX 1437

TOPPER CORPORATION

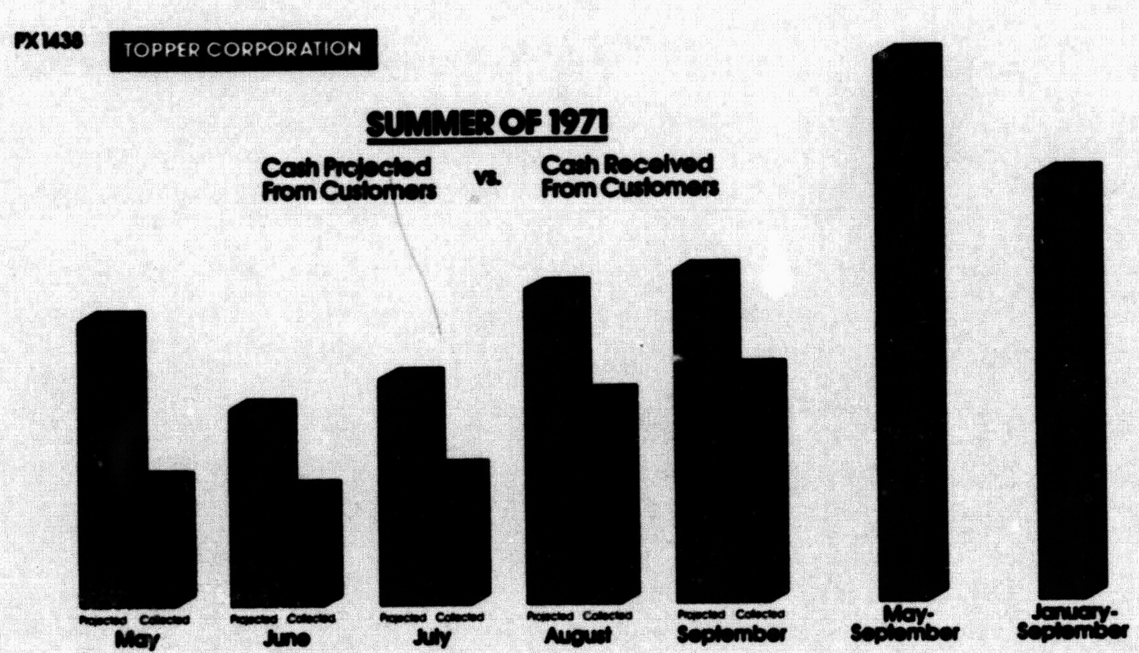
WAREHOUSE PROGRAM

At August 31, 1971



* Merchandise stored by Topper in the New York Terminal and Woodbridge Warehouses under the Spring 1971 Program and during 1971

SOURCE: Topper Corporation Terminal Whse. Recap 8/31/71 (PX 1001 and Citibank Admissions 179 & 933)



PX1438 TOPPER CORPORATION

SUMMER OF 1971

Cash Projected From Customers vs. Cash Received From Customers

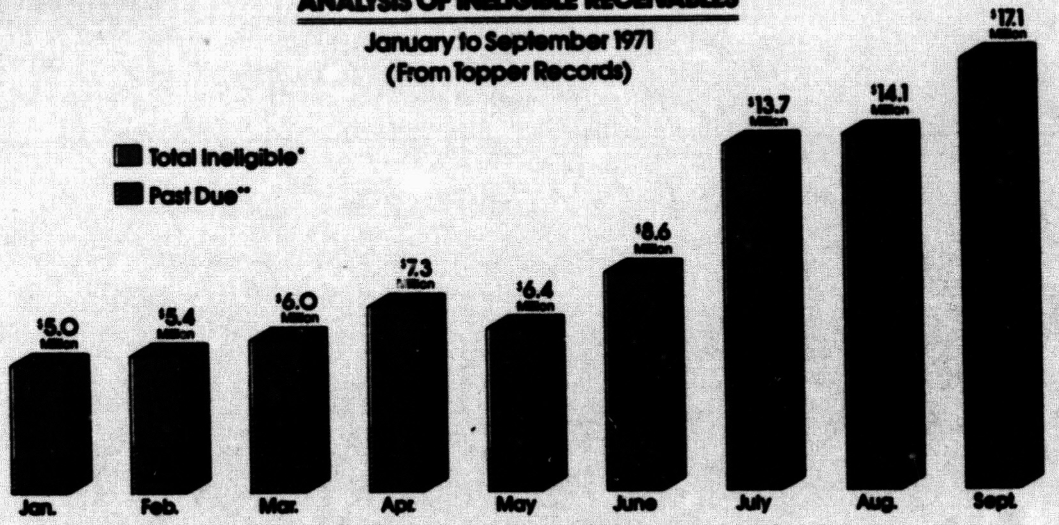
SOURCE: Topper Corporation Projection Analysis of Receivables and Inventory 1/1/71–1/31/72 included within Topper Corporation Preliminary Financial Statements as of December 31, 1970 and Projection of Operations for the Period Ending December 31, 1971 (PX 6, PX 393 and Citibank Admissions 65, 281 & 355) and the Loan Balance Pages of the Loan Status Worksheets for Jan.–Sept. 1971 (PX 333–341, PX 393, and Citibank Admissions 66, 294–302 & 355)

TOPPER CORPORATION

PX 1439

ANALYSIS OF INELIGIBLE RECEIVABLES

January to September 1971
(From Topper Records)



*Accounts receivable that were listed as ineligible on materials submitted by Topper to Citibank. This includes receivables more than 60 days past due, except for redated receivables which Topper viewed as eligible throughout the period. This data excludes those receivables in January, February and March which were temporarily deemed ineligible because they were subject to a prior Letter of Credit issued by Manufacturers Hanover to finance the shipment of the underlying merchandise from the Orient; such receivables, which were subsequently deemed eligible upon arrival of the merchandise in the United States, are thus shown as eligible for the entire period.

**Accounts receivable that were past due more than 60 days according to Topper's records. This figure does not include approximately $2.2 million of redated receivables which were past due more than 60 days as of March 10, 1971 because they were viewed as "current" receivables by Topper management.

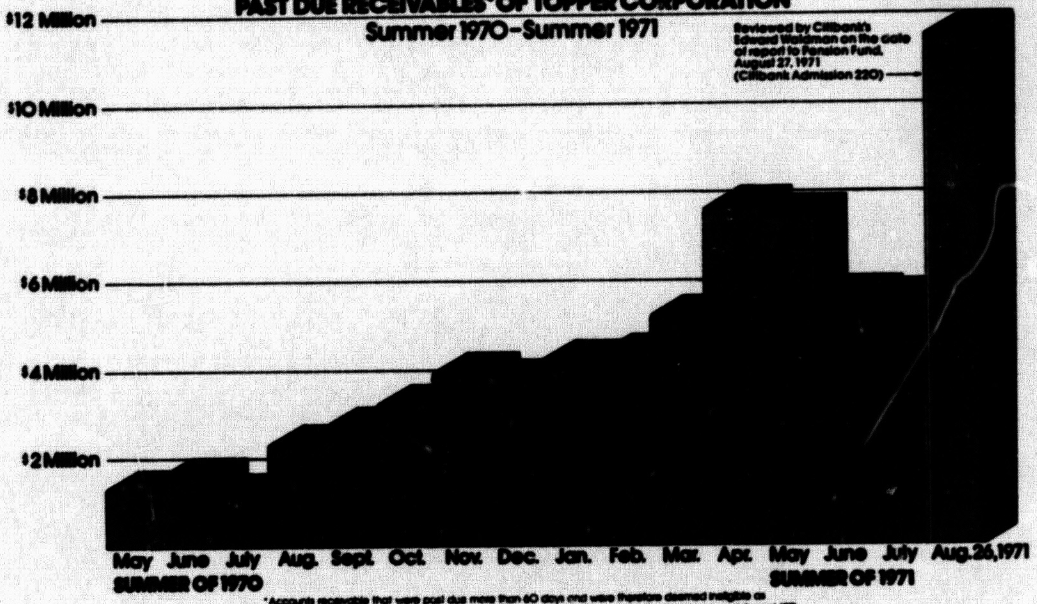
SOURCE: Topper Corp. Accounts Receivable Aging — Total Ineligible Receivables at Month End — Jan.–Sept 1971 (PX 392, and Citibank Admissions 68 and 354)

CITIBANK RECORDS

PX1440

PAST DUE RECEIVABLES* OF TOPPER CORPORATION

Summer 1970–Summer 1971



*Accounts receivable that were past due more than 60 days and were therefore deemed ineligible as collateral under the Citibank Loan Formula. Past due receivables for the months of June, July and August 1971 include $2 Million of receivables originally due on January 10, 1971 which Topper redated until September 10, 1971. Such redated receivables are shown as past due on the Citibank Advance Sheets from April 13, 1971 through June 8, 1971; thereafter, they were removed from the past due column pursuant to an agreement with Topper management on June 8, 1971 (PX 689 and Citibank Admission 619). For purposes of consistency, these redated receivables are treated as past due throughout the months of June, July and August 1971.

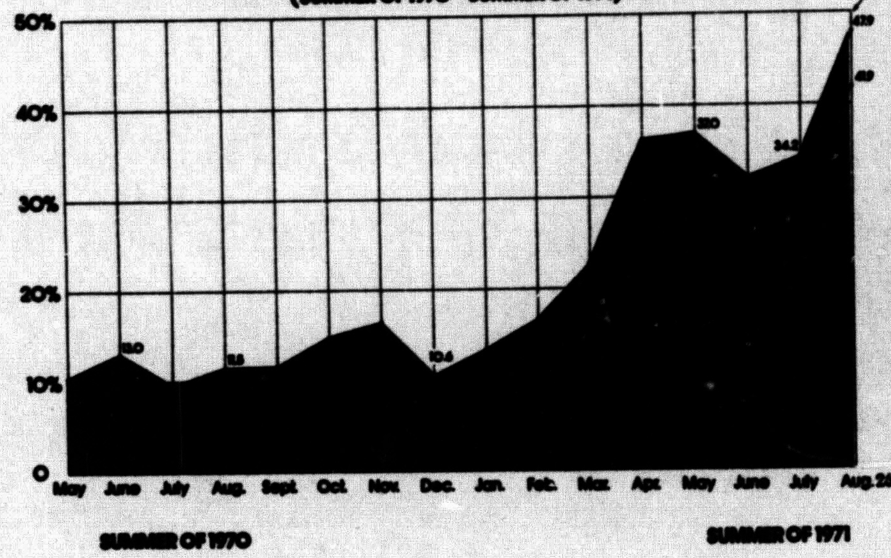
SOURCE: Citibank Daily Advance Sheets for May 28, June 30, July 31, August 31, September 29, October 30, November 30, December 30, 1970 and January 29, February 26, March 31, April 30, May 28, June 30, July 30, and August 26, 1971 (PX 621, PX 645-647, PX 1462-1473, Citibank Admissions 220, 571 & 573-575 and Citibank Revised Request for Admissions 18)

PX1441

CITIBANK RECORDS

PERCENT OF TOPPER CORPORATION RECEIVABLES DEEMED PAST DUE* OR INELIGIBLE** BY CITIBANK

(SUMMER OF 1970 – SUMMER OF 1971)



Reviewed by Citibank's Edward [illegible] on the date of report to Pension Fund, August 27, 1971 (Citibank Admission [illegible])

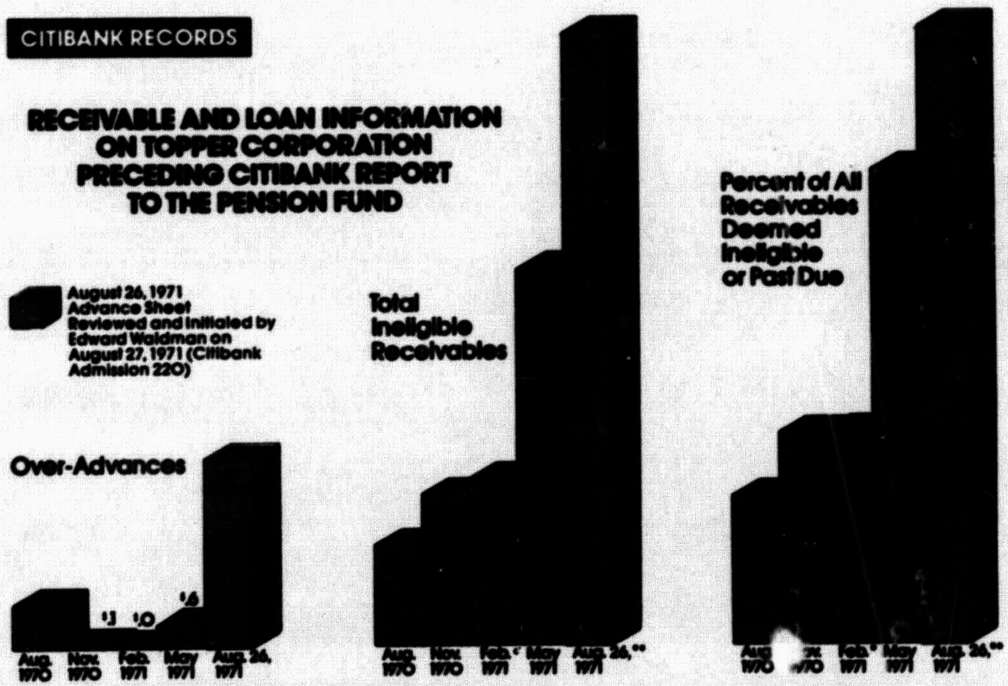
* [illegible]

** [illegible]

[illegible]

PX 1442 CITIBANK RECORDS

RECEIVABLE AND LOAN INFORMATION ON TOPPER CORPORATION PRECEDING CITIBANK REPORT TO THE PENSION FUND



*See Footnote** on PX 1441 relating to 'Drop Ship' adjustment.

**See Footnote* on either PX 1440 or 1441 relating to 'Redating' adjustment.

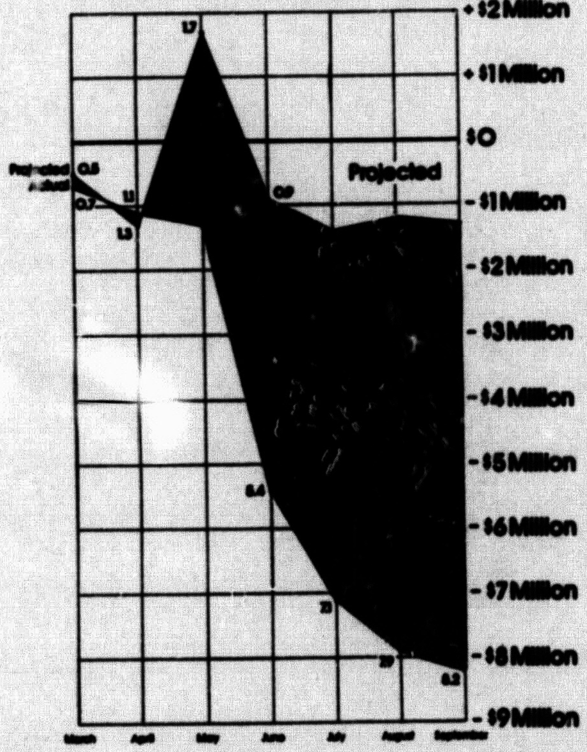
SOURCE: Citibank Daily Advance Sheets for August 31 and November 30, 1970 and February 26, May 28, and August 26, 1971 (PX 621, PX 645, PX 146[illegible] [illegible]X 1468, PX 1471, Citibank Admissions 220, 571 & 573 and Citibank Revised Request for Admissions [illegible])

PX1443

TOPPER CORPORATION

CASH FLOW FROM OPERATIONS
Projected vs. Actual*

(Cumulative from January 1, 1971)
For The Period March 1, 1971 to September 30, 1971



* Actual Cash Flow excluding Unanticipated Financings

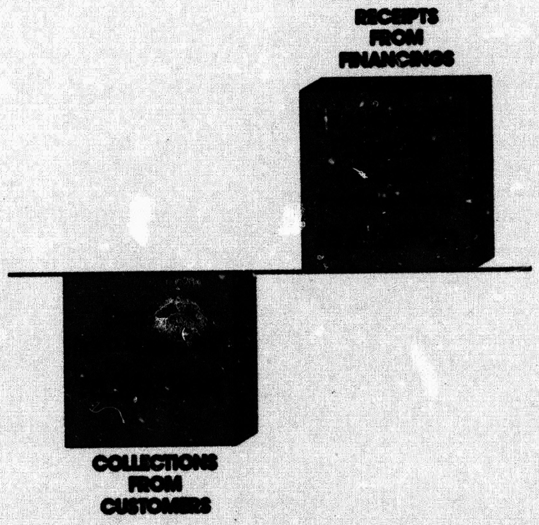
SOURCE: Topper Corporation Consolidated Balance Sheet for the Period Ended December 31, 1970 included within the Private Placement Memorandum (PX 462 and Citibank Admission 428) and Topper Corporation Consolidated Balance Sheet pages cluded within Topper Corporation (Unaudited) Monthly Consolidated Financial Statements and Supporting Schedules for January–September 1971 (PX 1–5, PX 399–402 and Citibank Admissions 276–280 & 361–364) and Topper Corporation Projected Cash Flow Statement for the Period January 1, 1971–January 31, 1972 included within Topper Corporation Preliminary Financial Statements as of December 31, 1970 and Projection of Operations for the Period Ending December 31, 1971 (PX 6 and Citibank Admissions 65 and 281) and the Loan Balance Pages of the Loan Status Worksheets for January–September 1971 (PX 333–341 and Citibank Admissions 66, 67 & 294–302)

PX1444

TOPPER CORPORATION

SOURCES OF CASH
Projected vs. Actual

January 1,1971 to September 30,1971



SOURCE: Topper Corporation Consolidated Balance Sheet for the Period Ended December 31, 1970 included within the Private Placement Memorandum (PX 462 and Citibank Admission 428) and Topper Corporation Consolidated Balance Sheet pages included within Topper Corporation (Unaudited) Monthly Consolidated Financial Statements and Supporting Schedules for January–September 1971 (PX 1–5, PX 399–402 and Citibank Admissions 276–280 & 361–364) and Topper Corporation Projected Cash Flow Statement for the Period January 1, 1971–January 31, 1972 included within Topper Corporation Preliminary Financial Statements as of December 31, 1970 and Projection of Operations for the Period Ending December 31, 1971 (PX 6 and Citibank Admissions 65 and 281) and the Loan Balance Pages of the Loan Status Worksheets for January–September 1971 (PX 333–341 and Citibank Admissions 66, 67 & 294–302)

Dx 1457 A 3602 January 14, 1972

Memorandum:
Prepared at the Request of, and for, Winthrop, Stimson, Putnam & Roberts.

Topper Corporation

(Telephone Conversation with Jack Rose, Financial Vice President)

I called Jack Rose to try to obtain additional information about what FNCB knew, at the time Mr. Waldman spoke to me in August, and also to obtain more information on financial data about the company, during the summer months. Mr. Rose will supply me with the company's unaudited July and August balance sheets which will show the level of receivables at the end of these months. He indicated that cash collections deposited at banks totaled $2.6 million in July; $4 million in August and $4.5 million in September. The statements which he is sending will show "Sales - Shipments". In addition, I asked him to give us the amount of "ineligible" receivables at the end of June, July and August. With these figures, I believe that we will have a much better understanding of what the bank knew in July and August.

Mr. Rose said that receivables which become past 60-days-due in a month are not considered"ineligible"until the end of that month for lending purposes. Thus, the uncollected portion of the Spring program which should have been paid on May 10th, was not considered"ineligible"until the end of July. Similarly, receivables due over 60 days for August would not be considered"ineligible" until the end of that month.

I asked Mr. Rose if FNCB was watching collections in July and August and he said that it was. He said the bank knew of the company's collection problems in July. This means it could not represent to us that it did not have any inkling of what was happening to the aging of receivables when Mr. Waldman spoke to me in August.

Mr. Rose said that the August $4 million of cash deposited was up from July but well below expectations and that the bank was aware of this.

Mr. Rose did not believe that the bank's loan of $20.3 million at the end of June was secured by other than eligible receivables and it was not at that time lending against inventory and other assets.

I asked Mr. Rose if FNCB was cooperating, and he indicated that funds had been cut off three times within the past week,which took up hours of the company's valuable time which could have been spent on collections or preparing more current financial reports. He also said that Mr. Orenstein was attempting to bring in $2 million of money, junior to the bank's but senior to us, in order to induce the banks to continue to supply funds during 1972. He indicated that he had not received much encouragement to date from the banks based upon this possibility of new money.

Henry L. Thompson

Prepared at the request of, and for, Winthrop, Stimson, Putnam and Roberts.

P. EXH 1458

January 31, 1972

A 3603

Topper Corporation

Outline of Anticipated Conversation with Messrs. Carvin and Waldman, next week.

1. This was an offbeat investment for us and we did considerable work on it before going into it. After it collapsed 2½ months later, we have spent considerable effort to find out what happened and why.

2. Our complaint with FNCB is that Mr. Waldman did not give us the full disclosure we were entitled to under our investment advisory agreement in his conversation with Mr. Thompson on August 27th and the banks used our money to retire their debt, leaving us with an unsecured position replacing their secured one.

3. On August 27th, Waldman told Thompson:
   a. FNCB was auditing the receivables and that this was one of the reasons for the 3% over prime interest rate.
   b. Management had shown itself to be competent in these audits and that Topper's financial vice president, Mr. Rose, was capable.
   c. FNCB had had other dealings with toy companies and Mr. Waldman rated Topper's management above average within the industry.
   d. There were no current problems.
   e. He did not anticipate any problems.

4. We relied very heavily upon the favorable assurances given us by FNCB and in the light of the facts as are known to exist today, cannot understand how Mr. Waldman could have made some of the statements that he did in his conversation with Mr. Thompson on August 27th.

5. Only in December did we learn that:
   a. Waldman had made a "temporary" $3.0 million increase in the bank loan in July outside the normal 80% lending pattern of 60-day eligible receivables and that this was secured by inventory and fixed assets. This expired August 15th.
   b. This was at a time when $6 million of about $29 million of receivables were becoming "ineligible" because of overshipments of its "Dawn" doll line, the preceding December.
   c. The company was months behind in paying its trade creditors.

6. The bank knew this because it receives monthly unaudited financial statements, daily sheets showing receivables and inventories, and had its men at Topper doing auditing work in the summer. Moreover, Topper tells us that FNCB was aware of its collection problem.

7. By August 27th the problem was worse, in that September was a very large shipment month and collections were still substantially lagging Topper's projections. On this date:
   a. The bank then knew that USSCPF was considering an unsecured loan and that Ford Credit was going to put money into the company. Thus the temporary loan was extended until 2 days after our closing with a larger portion secured by other than eligible receivables.
   b. Lusk, Waldman's assistant, extended this agreement 2 days before Thompson's call to Jeffers was returned by Waldman.
   c. In August, the portion of the $21 million secured by other than eligible receivables, was increased from $3.0 million to $4.6 million.
   d. There was real pressure on Topper to take down the loan with us even though management must have known it was in serious difficulty then. The management claims an error in judgment but admits to discussing the problems with the bank and among themselves.

6. Conclusion:

We turned to Walter Jeffers on the basis of our contractual investment advisory relationship and were assured by the bank that everything was all right, when it was known - or knowable - that it was not. Waldman omitted any reference to unfavorable factors and did not give us the full disclosure were were entitled to under our investment advisory agreement. This is particularly sensitive since our money replaced the banks' money in a situation that collapsed 2½ months later with little prospect of recovery.

H.L.T.

A 3605

TOPPER CORPORATION

Examples of Company's Reporting

PX 1459

A 3608

CREDIT SUMMARY

This is a report similar in form to the Daily Billing Summary and represents the summary for the day, month to date and year to date of all returns processed by item.

TOPPER CORPORAT[illegible] - 06/09/71

CREDIT SUMMARY - FINAL TOTALS - CURRENT LINE

ITEM #	DESCRIPTION	TO DAY QUANTITY	NET AMOUNT	AVG. PRICE	MONTH TO DATE QUANTITY	NET AMOUNT	AVG. PRICE	YEAR TO DATE QUANTITY	NET AMOUNT	AVG. PRICE
0500	DAWN DOLL 24 PC							1,973-	46,876.61-	23.75
0501	GLORI DOLL 24 PC							445-	10,677.05-	23.99
0502	ANGIE DOLL 24 PC							1,019-	25,247.34-	24.77
0503	DALE DOLL 24 PC							269-	6,475.92-	24.07
0504	GARY DOLL 24PC	37-	1,110.89-	30.02	37-	1,110.89-	30.02	74-	2,221.78-	30.02
0507	JESSICA DOLL 24 PC	25-	642.60-	25.70	25-	642.60-	25.70	53-	1,359.45-	25.65
0513	LONG LOCKS DOLL 24PC	26-	668.30-	25.70	26-	668.30-	25.70	106-	2,721.83-	25.67
0520	DANCING DAWN 24 PC							61-	2,353.11-	38.57
0521	DANCING GLORI 24 PC							4-	157.23-	39.30
0522	DANCING ANGIE 24 PC							11-	444.20-	40.38
0523	DANCING DALE 24 PC	74-	2,861.14-	38.66	74-	2,861.14-	38.66	148-	5,722.28-	38.66
0527	DANCING JESSICA 24PC							1-	38.66-	38.66
0530	DANCING LONGLOCKS 24	150-	5,799.60-	38.66	150-	5,799.60-	38.66	352-	13,603.94-	38.64
0550	FASHION SHOW							14,566-	131,637.70-	9.03
0551	ACTION CAR							137-	885.97-	6.46
0552	SOFA & TELEPHONE							1,366-	6,153.89-	4.50
0553	MUSIC BOX	174-	577.85-	3.32	174-	577.85-	3.32	4,686-	14,614.69-	3.11
0554	BEAUTY PARLOR	60-	118.26-	1.97	60-	118.26-	1.97	517-	967.08-	1.87
0555	CARRYING CASE							57-	50.66-	0.89
0556	POCKETBOOK							654-	1,557.64-	2.24
0562	DOUBLE DANCE PARTY							1-	8.09-	8.09
0564	6 DOLL CASE	1,500-	4,036.50-	2.69	1,500-	4,036.50-	2.69	5,128-	13,792.41-	2.68
0565	FANCY FT DANCE PARTY							4-	21.56-	5.39
0566	3 DOLL CASE							12-	21.48-	1.79
0590	STORE DISPLAY							51-		
0591	STORE DISPLAY							48-		
0600	24 PC OUTFIT ASST							337-	5,836.52-	17.31
0601	24 PC OUTFIT ASST							2-	38.45-	19.22
0700	24 PC OUTFIT ASST	12,456-			12,496-			30,121-	87,675.61-	2.91
0701	24 PC OUTFIT ASST	10,188-			10,188-			33,266-	16,660.25-	0.50
0900	24 PC OUTFIT ASST	6,872-			6,972-			15,937-	38,145.40-	2.39
0901	24 PC OUTFIT ASST	4,309-			4,309-			25,914-	80,854.17-	3.12
1800	BABY MAGIC							13-	115.47-	8.88
1801	LIL MISS FUSSY							38-	341.54-	8.98
1803	WALKING VINYL DOLL							311-	643.77-	2.07
1804	TINY BABY CRAWLER							275-	332.45-	1.20
1809	BABY LUV N CARE							5,459-	47,401.15-	8.68
1810	BLCK BABY LUV N CARE							2-	18.08-	9.04
1816	BABY PARTY							188-	954.39-	5.07
1817	BABY PEEK N PLAY							480-	3,967.94-	8.26
1817C	BLK BABY PK-N-PLY							2-	17.98-	8.99
1818	BABY PK PLY W ACC							80-	906.28-	11.32
1819	BABY CATCH-A-BALL							2,560-	19,278.34-	7.53
1819C	BLK BABY CATCH-BL							10-	83.56-	8.35
1820	BABY CRAWLER							34-	108.75-	3.19
1821	BABY WALKER							84-	267.05-	3.17
1822	BABY FUSSY							144-	442.95-	3.07
1823	BABY PARTY							930-	2,900.72-	3.12
1824	BABY RIDE-A-BIKE							4,643-	8,244.56-	1.77
1824R	BUSY BABY RIDE BK							3-	11.37-	3.79
1827	SMARTYPANTS							164-	1,475.88-	8.99
2000	LNG WASHER-DRYER							37-	383.09-	10.35

A 3607

ACCOUNTS RECEIVABLE REPORT

The Company's accounts receivable records are maintained on the I. B. M. computer. Prior to three years ago, these records were maintained on an NCR bookkeeping machine system which made it extremely difficult to:

1. Follow up on collection of open invoices;
2. Follow up on collection of improper customer deductions;
3. Accurately project cash receipts.

For the past three years, the Company's accounts receivables have been maintained on the computer with the result that aging of accounts receivable can be prepared quickly after the end of the month, both in summary form by account and in detail for follow up on collection of open invoices and deductions. In addition, the projection of cash receipts is prepared monthly by the computer indicating anticipated receipts by week.

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6/30/71                         ACCOUNTS  RECEIVABLE  DETAIL  TRIAL  BALANCE   [illegible]      PAGE   1

     941       A L SALES CO INC       BERLIN CONN           0000
INVOICE SEQ.   DATE    MEMO    DATE    TH TRNS    BALANCE      CREDITS      CURRENT      30 DAYS      60 DAYS      90 DAYS      OTHER
                            ACCOUNT  TOTAL         963.21-    5,178.16-         .00          .00       260.64     3,954.31        .00

     4601      RONALD AAMONT          ELIZABETH N J         0000
INVOICE SEQ.   DATE    MEMO    DATE    TH TRNS    BALANCE      CREDITS      CURRENT      30 DAYS      60 DAYS      90 DAYS      OTHER
                            ACCOUNT  TOTAL         269.00          .00          .00          .00          .00       269.00        .00

     4783      ABBEY SALES CO INC     ST LOUIS MO           6313
INVOICE SEQ.   DATE    MEMO    DATE    TH TRNS    BALANCE      CREDITS      CURRENT      30 DAYS      60 DAYS      90 DAYS      OTHER
                            ACCOUNT  TOTAL         417.63-      109.07-         .00          .00          .00          .00     286.44

     0889      ABRAHAM & STRAUS       BROOKLYN         N Y0000
INVOICE SEQ.   DATE    MEMO    DATE    TH TRNS    BALANCE      CREDITS      CURRENT      30 DAYS      60 DAYS      90 DAYS      OTHER
                            ACCOUNT  TOTAL         985.99          .00          .00          .00          .00          .00     985.99

     9165      ACE HARDWARE CO        CHICAGO          ILL0000
INVOICE SEQ.   DATE    MEMO    DATE    TH TRNS    BALANCE      CREDITS      CURRENT      30 DAYS      60 DAYS      90 DAYS.     OTHER
                            ACCOUNT  TOTAL       2,954.05       129.20-    3,066.54        15.14          .00          .00       1.57

     11653     ADVANCE NOVELTY SALE   CHICAGO ILL           0000
INVOICE SEQ.   DATE    MEMO    DATE    TH TRNS    BALANCE      CREDITS      CURRENT      30 DAYS      60 DAYS      90 DAYS      OTHER
                            ACCOUNT  TOTAL       9,686.21        14.38-    9,700.59          .00          .00          .00        .00

     140303    ALABAMA HARDWARE       MOBILE ALABAMA        0000
INVOICE SEQ.   DATE    MEMO    DATE    TH TRNS    BALANCE      CREDITS      CURRENT      30 DAYS      60 DAYS      90 DAYS      OTHER
                            ACCOUNT  TOTAL         139.91          .00       139.91          .00          .00          .00        .00

     142970    A B MARKETING SYSTEM   BRILLIANT OHIO        0000
INVOICE SEQ.   DATE    MEMO    DATE    TH TRNS    BALANCE      CREDITS      CURRENT      30 DAYS      60 DAYS      90 DAYS      OTHER
                            ACCOUNT  TOTAL     183,142.55     1,274.96-   94,775.25          .00    85,497.66          .05   3,344.20

     142943    -FRED W ALBRECHT GROC  AKRON OHIO            0000
INVOICE SEQ.   DATE    MEMO    DATE    TH TRNS    BALANCE      CREDITS      CURRENT      30 DAYS      60 DAYS      90 DAYS      OTHER
                            ACCOUNT  TOTAL       1,634.28       225.27-         .00          .00          .00     1,545.81     313.74

     144127    ALDENS INC 041625      CHICAGO ILL           0000
INVOICE SEQ.   DATE    MEMO    DATE    TH TRNS    BALANCE      CREDITS      CURRENT      30 DAYS      60 DAYS      90 DAYS      OTHER
                            ACCOUNT  TOTAL       8,297.40     6,393.60-       17.07        53.41     1,147.13     1,106.10  12,367.29

     144134    ALEXANDERS             NEW YORK N Y          0000
INVOICE SEQ.   DATE    MEMO    DATE    TH TRNS    BALANCE      CREDITS      CURRENT      30 DAYS      60 DAYS      90 DAYS      OTHER
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      7/31/                                  ACCOUNTS_ RECEIVABLE DETAIL  TRIAL  BALANCE                                          PAGE   1

       4000      RONALD AARONT           ELIZABETH N J       0000
 INVOICE SEQ.     DATE      MEMO     DATE     TM TRNS      BALANCE      CREDITS       CURRENT      30 DAYS      60 DAYS      90 DAYS        OTHER
 133619 106394 10/06/70            11/05/70 02 IN2          80.00                                                               80.00
 162959 149452 12/11/70             1/10/71 02 IN2         189.00                                                              189.00
                                ACCOUNT  TOTAL             269.00          .00           .00          .00          .00         269.00          .00

       4753      ABBEY SALES CO INC      ST LOUIS MO         6313
 INVOICE SEQ.     DATE      MEMO     DATE     TM TRNS      BALANCE      CREDITS       CURRENT      30 DAYS      60 DAYS      90 DAYS        OTHER
   1662  57777  2/14/70    81005   6/12/70       DM4         22.87                                                                           22.87
  11155     22 12/29/69    75299   3/30/70       DM4         79.23                                                                           79.23
  22222 161952  1/14/71   106117   1/14/71       DD4        112.48                                                                          112.48
  22222 162054  1/15/71   105929   1/15/71       DD4          6.98                                                                            6.98
  22222 162055  1/15/71   106303   1/15/71       DD4         29.08                                                                           29.08
  22222 162056  1/15/71   106270   1/15/71       DD4          6.14                                                                            6.14
  22222 162057  1/15/71   106269   1/15/71       DD4          6.45                                                                            6.45
  60131     40  1/15/70    60131   1/15/70       DM4         23.21                                                                           23.21
  96698 180463  3/04/71    96698   3/15/71       CM6         60.03-       60.03-
  96699 180464  2/24/71    96699   3/15/71       CM6         40.72-       40.72-
  97991 180268  3/10/71    97991   4/13/71       CM6         37.59-       37.59-
  98986 199367  4/27/71    98986   5/10/71       CM6          5.81-        5.81-
 190023 215348  7/08/71      228   8/07/71 01 IN2           544.51                      544.51
 190024 215349  7/08/71      229   8/07/71 01 IN2           544.51                      544.51
 190025 215350  7/08/71      230   8/07/71 01 IN2           584.90                      584.90
 190026 215351  7/08/71      231   8/07/71 01 IN2           434.12                      434.12
 190140 215611  7/09/71      233   8/08/71 01 IN2           359.47                      359.47
 214013 191243             98425   4/23/71       CM6         59.92-       59.92-
 242026 181856             96872   3/19/71       CM6        500.00-      500.00-
                                ACCOUNT  TOTAL           2,049.88       704.07-     2,467.51          .00          .00          .00         286.44

       6689      ABRAHAM & STRAUS        BROOKLYN            N Y0000
 INVOICE SEQ.     DATE      MEMO     DATE     TM TRNS      BALANCE      CREDITS       CURRENT      30 DAYS      60 DAYS      90 DAYS        OTHER
  22222 163795  1/25/71   277194   1/25/71       DD4         32.40                                                                           32.40
 166672 163797  1/25/71   277194   1/25/71       DM4         38.24                                                                           38.24
 830538 163798  1/04/71   277194   1/25/71       DM4        915.35                                                                          915.35
                                ACCOUNT  TOTAL             985.99          .00           .00          .00          .00          .00         985.99

       8164      ACE HARDWARE CO         CHICAGO             ILL0000
 INVOICE SEQ.     DATE      MEMO     DATE     TM TRNS      BALANCE      CREDITS       CURRENT      30 DAYS      60 DAYS      90 DAYS        OTHER
   1230 172269             95588   2/22/71       CM6          9.38-        9.38-
   1494 150034             91706  12/14/70       CM6          9.19-        9.19-
   2925 223156            100156   7/27/71       CM6          9.39-        9.39-
  22222 218466  7/15/71    19774   7/15/71       DD4         24.12                                                                           24.12
  54625 167814             94829   2/08/71       CM6          4.69-        4.69-
  65059 160274             93274   1/08/71       CM6          3.13-        3.13-
  68069 177699             96229   3/08/71       CM6         22.81-       22.81-
  73879 177700             96228   3/08/71       CM6          1.87-        1.87-
  73898 180219             96600   3/12/71       CM6          2.08-        2.08-
  97159 182914  3/01/71    97159   3/24/71       CM6          4.69-        4.69-
  97160 182915  3/02/71    97160   3/24/71       CM6         18.78-       18.78-
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A 3610

A 3611

[illegible] 1479

PRIVILEDGED and CONFIDENTIAL:
For Use of Counsel Only

Memorandum
Prepared at the request of, and for,
Winthrop, Stimson, Putnam and Roberts

February 16, 1972

HS-Mole 63 ED
arn 2/4/76

Topper Corporation

I talked with Lester Carvin, Senior Vice President, and Mr. Walter Jeffers of the First National City Bank. They stated that they had considered our point that Mr. Waldman had given us substantially less than full disclosure at the end of August. They pointed out that the Topper loan was in the factoring department and was on a secured basis and therefore we must have known that this was a marginal type of credit. They feel that under the circumstances the bank had acted properly and, therefore, they did not feel any responsibility.

I stated in turn that we had known that this account was handled by the factoring division and contained more than average risk but we had felt that this was compensated for by the conversion privilege. However, when Mr. Waldman stated that "there are no problems at the moment nor did he anticipate any," the only inference that we could draw was that the company was in a healthy financial condition at the time. I repeated that I do not believe that Mr. Waldman had any inkling that the company would get into difficulties within three months, time, but I did not believe that he had been candid with Mr. Thompson, since it was clear from figures obtained later that anyone auditing the receivables would have known that there had been a sharp rise in ineligible accounts.

I thanked them for giving consideration to our problem. In leaving I mentioned that this was the second instance when we had faulty information from their bank. The first time was in August 1960 when one of their vice presidents had recommended the management of Trice Production Company with whom we were negotiating a production payment.

Harvey Mole

PRIVILEDGED and CONFIDENTIAL:
For Use of Counsel Only

[illegible] 1482 A 3612

Prepared at the request of, and for, Winthrop, Stimson, Putnam & Roberts

Topper Corporation

I talked with Walter Wriston, Chairman of the First National City Bank regarding our investment in the Topper Corporation.

I explained that we had used the bank on many occasions for investment advice and credit checks, and, in general, they had been very helpful. However, I felt that our experience in connection with Topper Corporation has been an exception. Mr. Wriston was not familiar with the loan or the company. I asked him to assume our statements are correct, subject to further checking on his part. However, I pointed out that the bank audits Topper's receivables and that they are in a position to know whether there is any deterioration in payments from the company's customers. I explained that on July 15, 1971 the bank had raised Topper's loan limit from $18 million to $21 million, although the eligible receivables did not justify this increase. On August 25th this loan in excess of eligible collateral was further increased from $3 million to $4.8 million until September 30th, which was the approximate time of our closing. Two days after the second indication that receivables were not being paid down as promptly as the eligibility formula called for, Mr. Waldman had called Mr. Thompson of the Pension Fund at Walter Jeffers' request and had stated to Mr. Thompson that "the relationship between FNCB and Topper has been good, and there are no problems at the moment nor does Mr. Waldman anticipate any."

I pointed out that we had checked with Glover Johnson, a partner of White and Case and a Director, as well as making several trade checks. We, however, had relied considerably on First National City Bank, who had been one of the two principal banks and had had a relationship with the company for about five years. I recounted that Mr. Orenstein had come in on December 16th with the news of the company's difficulties due to returned merchandise which had wiped out its equity. I also mentioned that the subordinated lenders had not been asked to the bank meeting on December 27th at which time Ford Credit was given a "pari passu" position with the banks as far as securing their loan with receivables.

I told Mr. Wriston of our conversation with Mr. Waldman on January 4th requesting equal security with the banks and his prompt reply, after checking with the other preferred creditors, that none of them was interested in securing our subordinated issue equally. I mentioned to Mr. Wriston that I was quite certain that his bank had not foreseen the extent of Topper's problems, but, after giving careful consideration to all information, it was very difficult for me to see how Mr. Waldman could have said on August 27th "there are no problems at the moment nor does he anticipate any." I mentioned to Mr. Wriston that I appreciated it would be very difficult to change the relative priorities of various creditors without creating real problems at this time. However, I reiterated that I do not feel that we received full disclosure of the company's problems in August prior to making our commitment in September. I also mentioned that our money and the $7 million Ford money was used to pay down the bank loans, which made the problem somewhat more sensitive, in my opinion. In closing, I stated that First National City Bank for the past two days has frozen Topper's funds, and there is some question as to whether the company can avoid receivership within the next week if this situation is not changed, although I hastened to add that it is not our intention to tell the bank how to handle its loan. Finally, I mentioned that we had not been invited to the secured creditors' meeting scheduled for January 24th.

Mr. Wriston said he would look into the matter immediately and refer it to George Scott, Chairman of the Credit Policy Committee.

Harvey Molé

PX 1497

CREDITS GRANTED TO TOPPER CUSTOMERS DURING 1970 AND 1971
(as reflected on Citibank Advance Sheets--PX 621,
PX 645-647, PX 1462, PX 1462A-1462D, PX 1463-1465)

compared with

SALES FOR 1970 AND 1971
(as reported in Topper Corporation's Unaudited Monthly
Financial Statements and Supporting Schedules--PX 1-4,
PX 399-402, PX 1161-1168)

	Cumulative Credit Amount	Cumulative Sales Amount	Cumulative Credits as a Percent of Cumulative Sales
1970			
January	781,922	835,000	93.6%
February	1,415,820	1,213,000	116.7
March	1,740,972	2,103,000	82.8
April	1,877,434	6,767,000	27.7
May	2,455,212	12,601,000	19.5
June	2,683,382	17,607,000	15.2
July	3,207,872	24,219,000	13.2
August	3,585,382	30,205,000	11.9
1971			
January	774,115	281,000	275.5%
February	1,340,067	1,045,000	128.2
March	1,713,216	4,900,000	35.0
April	2,451,560	8,008,000	30.6
May	3,394,489	11,737,000	28.9
June	4,938,916	19,313,000	25.6
July	5,528,210	22,502,000	24.6
August	5,711,150	27,380,000	20.9

A 3615

PX 1498

FIRST NATIONAL CITY BANK

CREDIT SCHEDULES

Monthly Summary of Citibank Daily Credit Schedule Forms Prepared By Topper Corporation and Forwarded to Citibank on a Daily Basis

January 1971	$ 720,984.70
February 1971	1,035,658.35
March 1971	199,787.53
April 1971	690,656.77
May 1971	1,266,451.52
June 1971	1,084,479.58
July 1971	528,684.87
August 1971	143,225.83
	$5,669,929.15

A 3616

FIRST NATIONAL CITY BANK

CREDIT SCHEDULES

Monthly Summary of Citibank Daily Credit Schedule Forms Prepared By Topper Corporation and Forwarded to Citibank on a Daily Basis

January 1971
(PX 90-109)

Schedule Date (Date of Credit Memos Summarized)		Date Received by Citibank	Processing Date	Amount
January 1 -- Holiday --				$ --
January 4	(12/30)	January 4	January 5	6,792.49
January 5	(12/31)	January 5	January 6	8,560.64
January 6	(12/31)	January 6	January 7	7,152.73
January 7	(12/31)	January 7	January 8	3,514.00
January 8	(12/31)	January 8	January 12	22,430.96
January 11	(12/31)	January 11	January 12	108,720.50
January 12	(1/8)	January 12	January 13	15,425.35
January 13	(1/11)	January 13	January 14	4,012.62
January 14	(1/12)	January 14	January 15	29,526.75
January 15	(1/13)	January 15	January 18	8,865.08
January 18	(1/14)	January 18	January 20	1,634.94
January 19	(1/15)	January 19	January 20	4,290.29
January 20	N.A.	N.A.	N.A.	N.A.
January 21	N.A.	N.A.	N.A.	N.A.
January 22	(1/20)	January 22	January 25	13,843.12
January 25	(1/21)	January 25	January 26	104,261.26
January 26	(1/22)	January 26	January 28	66,086.49
January 27	(1/25)	January 27	January 28	243,260.80
January 28	(1/26)	January 28	February 1	61,326.08
January 29	(1/27)	January 30	February 2	11,280.60
				$720,984.70*

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*Monthly total is based upon the Schedule Dates.

N.A.: Not Available

A 3617

FIRST NATIONAL CITY BANK

CREDIT SCHEDULES

Monthly Summary of Citibank Daily Credit Schedule Forms Prepared By Topper Corporation and Forwarded to Citibank on a Daily Basis

February 1971
(PX 110-125)

Schedule Date (Date of Credit Memos Summarized)	Date Received by Citibank	Processing Date	Amount
February 1 (1/28)	February 1	February 4	$ 65,453.69
February 2 (1/29)	February 2	February 3	35,806.04
February 3 (2/1)	February 3	February 5	25,624.74
February 4 (2/2)	February 4	February 5	12,632.94
February 5 (2/3)	February 5	February 8	12,903.89
February 8 (2/4)	February 8	February 9	34,894.33
February 9 (2/5)	February 9	February 10	264,066.12
February 10 (2/8)	February 10	February 11	517,971.77
February 11 N.A.	N.A.	N.A.	N.A.
February 12 (2/10)	February 16	February 17	3,905.40
February 15 N.A.	N.A.	N.A.	N.A.
February 16 (2/11)	February 16	February 17	9,200.07
February 17 N.A.	N.A.	N.A.	N.A.
February 18 (2/16)	February 18	February 22	8,523.69
February 19 N.A.	N.A.	N.A.	N.A.
February 22 (2/18)	February 23	February 23	16,349.56
February 23 (2/19)	February 24	February 24	13,060.39
February 24 (2/22)	February 24	February 25	3,661.25
February 25 (2/23)	February 25	February 26	5,959.45
February 26 (2/24)	February 26	March 1	5,645.02
			$1,035,658.35*

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*Monthly total is based upon the Schedule Dates.

N.A.: Not Available

FIRST NATIONAL CITY BANK

CREDIT SCHEDULES

Monthly Summary of Citibank Daily Credit Schedule Forms Prepared By Topper Corporation and Forwarded to Citibank on a Daily Basis

March 1971
(PX 126-143)

Schedule Date (Date of Credit Memos Summarized)		Date Received by Citibank	Processing Date	Amount
March 1	N.A.	N.A.	N.A.	N.A.
March 2	N.A.	N.A.	N.A.	N.A.
March 3	(3/1)	N.L.	March 4	$ 5,629.71
March 4	(3/2)	March 4	March 9	11,684.49
March 5	(3/2)	March 5	March 8	7,592.46
March 8	(3/4)	March 8	March 9	1,389.56
March 9	N.A.	N.A.	N.A.	N.A.
March 10	(3/8)	March 10	March 11	11,952.86
March 11	(3/9)	March 11	March 12	2,663.46
March 12	(3/10)	March 12	March 16	15,268.78
March 15	(3/11)	March 15	March 16	1,855.46
March 16	(3/12)	March 16	March 17	15,842.98
March 17	(3/15)	March 17	March 18	10,888.57
March 18	(3/16)	March 18	March 19	12,038.86
March 19	N.A.	N.A.	N.A.	N.A.
March 22	(3/18)	March 22	March 23	7,883.37
March 23	N.A.	N.A.	N.A.	N.A.
March 24	(3/22)	March 24	March 25	5,675.51
March 25	(3/23)	N.L.	March 26	25,721.96
March 26	(3/24)	March 26	March 29	13,120.48
March 29	(3/25)	March 29	March 30	8,927.49
March 30	(3/26)	March 31	March 31	4,454.43
March 31	(3/29)	March 31	April 1	37,197.10
				$199,787.53*

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* Monthly total is based upon the Schedule Dates.

N.A.: Not Available
N.L.: Not Legible

A 3619

FIRST NATIONAL CITY BANK

CREDIT SCHEDULES

Monthly Summary of Citibank Daily Credit Schedule Forms Prepared By Topper Corporation and Forwarded to Citibank on a Daily Basis

April 1971
(PX 144 - 162)

Schedule Date (Date of Credit Memos Summarized)	Date Received by Citibank	Processing Date	Amount
April 1 (3/30)	N.A.	N.A.	$ --
April 2 (3/31)	April 2	April 6	19,341.70
April 5 (4/1)	April 5	April 6	1,754.24
April 6 (4/2)	N.L.	April 7	167,103.98
April 7 (4/5)	April 7	April 8	7,149.66
April 8 (4/6)	April 8	April 9	108,419.80
April 9 N.A.	N.A.	N.A.	--
April 12 (4/7)	April 12	April 13	54,929.08
April 13 (4/8)	April 13	April 14	7,850.49
April 14 (4/12)	April 14	April 16	47,164.85
April 15 (4/13)	April 15	April 16	12,945.38
April 16 (4/14)	N.L.	April 20	7,316.51
April 19 (4/15)	April 19	April 20	2,743.37
April 20 (4/16)	April 20	April 21	4,749.99
April 21 (4/19)	April 21	April 22	9,471.98
April 22 (4/20)	April 22	April 23	181,266.46
April 23 (4/21)	April 23	April 27	17,772.57
April 26 (4/22)	April 26	April 27	5,309.33
April 27 (4/23)	N.L.	April 28	9,857.58
April 28 N.A.	N.A.	N.A.	--
April 29 (4/27)	April 29	April 30	5,123.67
April 30 (4/28)	N.L.	May 3	20,386.13
			$690,656.77*

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* Monthly total is based upon the Schedule Dates.

N.A.: Not Available
N.L.: Not Legible

A 3620

FIRST NATIONAL CITY BANK

CREDIT SCHEDULES

Monthly Summary of Citibank Daily Credit Schedule Forms Prepared By Topper Corporation and Forwarded to Citibank on a Daily Basis

May 1971

(PX 163-183)

Schedule Date (Date of Credit Memos Summarized)	Date Received by Citibank	Processing Date	Amount
May 3 (4/29)	May 3	N.L.	$ 1,348.21
May 4 (4/30)	May 4	N.L.	6,961.93
May 5 (5/3)	May 5	N.L.	26,584.64
May 6 (5/4)	May 6	May 7	9,057.42
May 7 (5/5)	N.L.	May 10	523,284.33
May 10 (5/6)	N.L.	N.L.	29,804.26
May 11 (5/7)	May 11	May 12	1,286.36
May 12 (5/10)	May 12	May 13	5,421.00
May 13 (5/11)	May 13	May 14	27,318.14
May 14	N.A.	N.A.	N.A.
May 17 (5/13)	N.L.	May 18	59,144.44
May 18 (5/14)	N.L.	May 19	1,251.00
May 19 (5/17)	May 19	May 20	2,520.21
May 20 (5/18)	N.L.	May 24	8,234.20
May 21 (5/19)	May 24	May 24	3,232.27
May 24 (5/20)	N.L.	May 26	23,266.37
May 25 (5/21)	N.L.	May 26	49,994.55
May 26 (5/24)	May 26	May 28	14,018.08
May 27 (5/25)	May 29	June 1	30,463.61
May 28 (5/26)	May 28	June ?	443,260.00
May 31	N.A.	N.A.	N.A.
			$1,266,451.52*

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*Monthly total is based upon the Schedule Dates.

N.A.: Not Available
N.L.: Not Legible

A 3621

FIRST NATIONAL CITY BANK

CREDIT SCHEDULES

Monthly Summary of Citibank Daily Credit Schedule Forms Prepared By Topper Corporation and Forwarded to Citibank on a Daily Basis

June 1971

(PX 184-205)

Schedule Date (Date of Credit Memos Summarized)	Date Received by Citibank	Processing Date	Amount
June 1 (5/27)	June 1	June 5	$541,848.95
June 2 (5/28)	June 2	June 4	96,641.22
June 3 (6/1)	N.L.	N.L.	5,451.58
June 4 (6/2)	June 4	June 7	4,638.29
June 7 (6/3)	June 7	June 8	3,249.98
June 8 (6/4)	June 8	June 9	3,095.93
June 9 (6/7)	June 9	June 10	1,388.03
June 10 (6/8)	N.L.	June 11	83,317.95
June 11 (6/9)	June 11	June 14	8,252.48
June 14 (6/10)	June 14	June 15	11,595.33
June 15 (6/11)	June 15	June 16	103,424.38
June 16 (6/14)	June 16	June 17	1,191.20
June 17 (6/15)	June 17	N.L.	18,703.87
June 18 (6/16)	June 18	June 22	51,617.62
June 21 (6/17)	June 21	June 22	43,294.97
June 22 (6/18)	June 22	June 23	53,380.38
June 23 (6/21)	June 23	June 24	20,518.78
June 24 (6/22)	June 24	June 25	4,652.67
June 25 (6/23)	June 25	N.L.	9,977.93
June 28 (6/24)	N.L.	June 30	3,743.57
June 29 (6/25)	June 29	June 30	718.79
June 30 (6/28)	June 30	July 1	13,775.68
			$1,084,479.58*

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*Monthly total is based upon the Schedule Dates.

N.A.: Not Available
N.L.: Not Legible

FIRST NATIONAL CITY BANK

CREDIT SCHEDULES

Monthly Summary of Citibank Daily Credit Schedule Forms Prepared By Topper Corporation and Forwarded to Citibank on a Daily Basis

July 1971

(PX 206-226)

Schedule Date (Date of Credit Memos Summarized)	Date Received by Citibank	Processing Date	Amount
July 1 (6/29)	July 1	July 6	$141,270.96
July 2 (6/30)	July 2	July 6	4,832.39
July 5 Holiday	--	--	--
July 6 (7/1)	July 6	July 7	337.03
July 7 (7/2)	July 7	July 8	15.41
July 8 (7/6)	N.L.	July 9	57.16
July 9 (7/7)	July 9	July 12	96.51
July 12 N.A.	N.A.	N.A.	N.A.
July 13 (7/9)	N.L.	N.L.	(21,986.51)
July 14 (7/12)	July 14	July 15	28,678.72
July 15 (7/13)	July 15	July 16	188,111.48
July 15	N.L.	July 16	6,825.87
July 16 (7/14)	N.L.	July 19	2,420.67
July 19 (7/15)	July 19	July 20	14,316.61
July 20 (7/16)	July 20	July 21	23,242.19
July 21 (7/19)	N.L.	July 22	7,110.86
July 22 (7/20)	N.L.	July 23	1,606.41
July 23 (7/21)	July 23	July 26	124,131.24
July 26 (7/22)	July 26	July 27	3,196.16
July 27 (7/23)	July 27	July 28	36.30
July 28 (7/26)	July 28	July 29	74.59
July 29 (7/27)	July 29	July 30	2,939.01
July 30 (7/28)	July 30	N.L.	1,371.81
			$ 528,684.87 *

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*Monthly total is based upon the Schedule Dates.

N.A.: Not Available
N.L.: Not Listed

A 3623

FIRST NATIONAL CITY BANK

CREDIT SCHEDULES

Monthly Summary of Citibank Daily Credit Schedule Forms Prepared By Topper Corporation and Forwarded to Citibank on a Daily Basis

August 1971
(PX 227-254)

Schedule Date (Date of Credit Memos Summarized)		Date Received by Citibank	Processing Date	Amount
August 2	N.A.	N.A.	N.A.	$ N.A.
August 3	N.A	N.A	N.A	N.A
August 4	N.A.	N.A.	N.A.	N.A.
August 5	(8/3)	August 5	August 6	11,910.72
August 6	N.A.	N.A.	August 9	2,196.96
August 9	N.A.	N.A.	N.A.	N.A.
August 10	(8/6)	August 10	August 11	695.24
August 11	(8/9)	N.L.	August 12	26,123.27
August 12	(8/10)	August 12	N.L.	(27,924.77)
August 13	(8/11)	August 13	August 16	5,120.90
August 16	(8/12)	August 16	N.L.	-0-
August 17	(8/13)	August 17	N.L.	7,140.36
August 18	(8/16)	August 18	August 20	76,658.32
August 19	(8/17)	August 19	N.L.	11,381.11
August 20	(8/18)	August 20	August 23	24,231.96
August 23	(8/19)	August 23	N.L.	(12,036.63)
August 24	(8/20)	August 24	N.L.	(4,390.98)
August 25	(8/23)	N.L.	N.L.	13,915.73
August 26	(8/24)	August 26	N.L.	(1,167.95)
August 27	(8/25)	August 30	N.L.	936.88
August 30	(8/26)	August 30	August 31	2,327.90
August 31	(8/27)	August 31	September 1	6,106.81
				$143,225.83*

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*Monthly total is based upon the Schedule Dates.

N.A.: Not Available
N.L.: Not Legible

A 3624

USA 33e - 475
(ED. 4-23-71)

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

1505 id
1506 id

FPI-MI—12-6-73-10M-1810

9:30
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Jefferies

Henry Thompson.
558-4758

U S Steel Pension Trust

1971			August			1971
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

FIRST NATIONAL CITY BANK
NEW YORK

1971			September			1971
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

FRIDAY, AUGUST 27

A 3625 PX 1551

January 27, 1972

TOPPER CORPORATION

January 25, 1972 -- The following is a list of items which Management is to prepare for the Lenders:

1. A man to coordinate our activities. Apparently that man is to be Julius Schwartz.
2. Make sure all shipments have been billed. We don't want them to hold for a Chapter proceeding.
3. If anything is to be shipped, make sure it is shipped. Make sure nothing is shipped to customers with credit balances.
4. Up date by next Monday's meeting on an accout-by-account basis a receivable situation.
5. Inventory by location, by line, by category and item. If inventory is not in New Jersey, it is in a warehouse and there is detail on that. Have receipts on this and all the units to be extended. $5.2 million - must get a fix on this. Morty feels most will be with New York Terminal - must get a fix on this. Detail status of ETI inventory.
6. Machinery and equipment listing in detail.
7. Insurance status.
8. Complete documentation of everything, including any side agreements. What do we get for our new $400,000?
9. Reconcile the loss number in detail as soon as possible.

City Bank's Thoughts

Mr. Siegel, on Tuesday, was optimistic that he had a reasonably hard number for receivables and that the Banks would eventually come out whole in liquidation if some form could be found to convert inventory to receivables. He spent a great deal of time going into the fact that City Bank's point is consistently been a compromise from hard collateral to a reliance of bill in hold and extended datings - when really this was just another term for inventory so that you had the overadvance and the $3 million of disbursements since 12/27 which represents the gap at this point. He feels that the whole problem of shrinkage in receivables has come out of the $14 million bill in hold sales. He feels strongly that no one should be surprised at the results today because the Lenders moved away from a hard collateral position where they were relying more and more on nebulous items plus the feeling that the credit had been substantially upgraded with public money, Ford's long-term loan and so forth. He feels that Ford and everyone else, should have been very aware that these bill in holds might not amount to anything.

A 3626

January 27, 1972

TOPPER CORPORATION

Following is a summary of a discussion which took place on January 25, 1972 with Mr. Julius H. Schwartz, Treasurer and Controller:

> Nothing has come out of the bonded warehouse. He estimates that there are finished goods of $1,584,000 either in bonded warehouses or on ships and another $1,305,000 in the Orient; however, that is an estimated figure, so that is roughly $2.8 million of actual inventory backing Manufacturer's facilities.
>
> In trying to expand on just what Manufacturers has, Mr. Schwartz indicated it is a mystery. By this he means that there are trust receipts and goods some place, however, they have not reduced their $356,000 overdraft to a loan. Apparently, a mistake was made by Manufacturers in releasing goods.
>
> The invoice from Blatt was described as a November shipment that was just coming through now.
>
> As to the inventory question, there is a great deal of detail; however, they are now summarizing it in groupings and hopefully, we will have that information today.
>
> As to cash sales, we will have to have this up dated but it looks like a very small number. The $2.5 million that is supposedly returned and reshipped would appear to be less than $1 million.
>
> As to the question of the Lionel invoices, we will, along with City Bank, get into this today and hopefully we will wait until Bill McCafferty arrives so that he will get the best example of the confusion that now exists on some of these accounts.
>
> The following is an attempt to reconcile to Mr. Siegel's best number the accounts receivable at January 25th:

Base Figure	$5,500,000
Collections	600,000
	$4,900,000
New Credits	500,000
	$4,400,000
ETI Receivables	2,500,000
	$6,900,000
Miscellaneous Receivables	500,000
	$7,400,000
Minimum Topper Sales for January	600,000
	$8,000,000

> To this $8.0 million must be added whatever the ETI sales have been, so his number at that time was $8.6 million or $8.7 million, including the ETI sales.

From the $11 million in collections, projected at the December 27th meeting, there is approximately $4.5 million left on the schedule which would indicate $6.5 million of collections. Obviously, all of this does not add up, but is an indication of Mr. Siegel's feeling at this point.

At a meeting on January 24th at City Bank it was learned that material under Letters of Credit become inventory when shipped and a credit is entered to offset the asset.

Jack Rose discussed very briefly the projected schedule, which was distributed at the meeting. This schedule indicates a year-end account receivable balance of $11,850,000, inventory of $22 million, and prepaid expenses of $550,000 for a total of $34.4 million in current assets at December 31, 1971. He started to discuss these items at this point, however, he did not finish. At this time, Mr. Orenstein started to talk. He discussed first what was good, that is, the surprising success of the Don Doll and other items. He then briefly got to the disaster since then. He briefly discussed the deals which were to be $2.25 and $2.50 million cash sales going mainly to Korvettes and Vornados. The Korvette deal did not work out and purchases were cut way back. Apparently, these purchases were cut back to $250,000. Discussion continued with Vornados and hopefully that sale may be a maximum of approximately $1 million. Today we will try to obtain an up date on these items.

Mr. Orenstein further discussed the deterioration of the past two weeks especially since salesmen's expenses were not paid. Merchandise that has been shipped is apparently $280,000 as the Trade awaits the results of the Bank meeting. He further indicated that they will want to move ahead as outlined in the projections with a year's commitment from the Lenders. He says Trade is in their corner, however, Mr. Hoffman pointed out that the same Trade has cut their accounts receivable way back. Mr. Orenstein replied again, talking about Topper's success and that they were going to ship year-around. They continued in 1971 to ship perhaps $17 million too much. There was no way to absorb this much. He though that by working with customers they could get our loan down to $6 million by the end of January. Because of publicity, this was impossible according to Mr. Orenstein. At this point, Mr. Hoffman asked why we should believe projections. Mr. Orenstein replied by saying that all efforts were to obtain cash and that is why the receivable figure came down so sharply and they misjudged what would happen after the last meeting as far as the Trade was concerned. Mr. Hoffman asked pointedly what the collateral was for the loans at this point. At this point, Mr. Jack Rose started to go over further numbers. He again started with a $14.1 million starting point for the last meeting. In the first week they shipped about what they said they would. He further said that errors were made in the schedule. $250,000 was an outright clerical error. Returns in allowances of about $1 million were not in the numbers because the Finance Department had not received them from the Sales Department. He then said receivables are there - it is a question of their collectibility. He again stressed don't fix on numbers. It was an attempt to give numbers which could be collected quickly. They now must take the time to collect the rest of it and much depends on the Company's posture. Receivable figures from preliminary audits will be about what is projected - $11.8 million. The deterioration is in collections, not receivables.

At this point, Mr. Waldman asked for a collateral position again and Jack Rose replied at this point that as of January 21st receivables that were collectible were $4.8 million plus he estimates $2 million from ETI for a total of $6.8 million, which is close to Mr. W. Finan's number of $6.6 million. Sesame Street is coming in slower than expected and they are getting some cancellation of reorders because of the situation. Again there was confusion as to the Sesame Street situation as Mr. Rose indicated that the sales of Sesame Street would be $3 million with collections bringing it to the $2½ million. He estimates $300,000 at this point of collections from Sesame, on that basis the total would be $7 million. He further indicated there are miscellaneous receivables of $500,000. He next moved to cash sales and at this point the number mentioned was $700,000. He again referred to accounts receivable at $3,350,000 as of January 31st. Mr. Rose further indicated that the physical inventory had been taken as of December 31, 1971, however, it was not reaudited and revalued for the lower of cost or market. He indicated that raw materials and work in process were $4 million. In the Orient was roughly $1 million of which most was finished. The $4 million and the $1 million from $22 million leaves $17 million of finished goods. He indicated that $8.8 million was in Elizabeth or Woodbridge, for a new total of $8.2 million - from that he subtracted $3 million of Manufacturers inventory for a new total of $5.2 million, which are returns in progress some place. In Utah, there are several hundred thousand and several hundred thousand in other public warehouses. Again an inventory figure of $3.8 million was used for the Orient - and replied to a new question of cash sales that $1.5 million was used for Vornedos, Kings and Lionel Leisure.

Manufacturers made the point that they must act as independently as possible. Mr. Hoffman made the point that no one was bound legally. Figures applied to the Loan, net of City Bank's 2%, through December 31st were - Ford - $1,681,701.48; Manufacturers - $1,051,334.83 and Fidelity - $462,775.65. Hal Lavery made the point about the escrow balance and that we should have a daily statement, which apparently someone at Ford receives daily. The point was made that Bill Davenport should check Manufacturers lien status. Warehouse receipts are in City National's name. City Bank will take care of the new filings.

In December 1970 Topper started extended terms, primarily for Don Doll. When Mr. Siegel went to Europe, other fellows accepted extended terms. In January dating had started and goods were sent FOB Japan directly to customer and were very hand to control.

In January 1971 they started the bill in hold program,container shipments and extended dates all about the same time. The extended datings were outlined in the 1970 annual report showing approximately $14 million sales on this basis. The Company came in (City Bank) in an attempt to get City

Bank to go along and loan against these three different categories. Bill in holds were backed by purchase orders, however, City Bank did not lend against the bill in hold or container shipments. The container shipments were not advanced on until the goods were in the United States and paid for. In February and March Topper got very tight and City Bank decided to take some of the May datings and possible advance up to $6 million against May datings. The Company (Topper) was still very tight and so City Bank did make some over-advances at this time. At this point, there was a lot of collateral both eligible and ineligible. The Company continued to be very tight cash wise, and the City Bank loan was $16-$17 million, Mr. Siegel guesses, at this time. In May City Bank and the Company still felt that Don Doll was a good product. Collections in May were very disappointing with an estimated $3 million collected against possibly $10 million of May dating. Still City Bank felt they were in good shape overall. They were over-advanced but not by very much. In April the Company had sold some stock and money was not so tight, so City Bank eased up and the loan went down at that time somewhat; however, it only took a month to go back up to full availability. So in June or July, they were again very tight, however, the Company said don't worry because they would $7 million from Ford on a term basis in public money. In July or August, the loan got up to $20 million. However, the merchandise was not really selling at the retail level. Management diluted themselves and they kept selling. In August, great pressure was put on City Bank and Topper told their customers to pay for the merchanidse they had actually used. At this time the no charge bills from the bill in hold were used and according to Siegel everything got fouled up accountingwise. Merchandise was taken out on a no charge basis and cash came in to reduce the bill in hold. Once shipped, the goods that had not been paid for became eligible under the borrowing formula. Again the August collections were terrible. Gross receivables were approximately $35 million of which $17 million were past due and ineligible for one reason or another. Therefore, approximately $18 million was available against possibly $20 million in loans (this work can be checked).

When $7 million came in from Ford it was on a pari passu basis, which apparently surprised Mr. Siegel who had thought the money would be on an unsecured basis and at about the same time they got their debenture money so that City Bank went along at this time. The big problem started in November. Again they were very tight but First National assumed receivables could be collected in Season, however, there was simply too much merchandise in the market. At this point Mr. Siegel mentioned that if they had cross-dated there would have been no collateral. When asked how much had been collected from the May and August datings, Mr. Siegel replied it would be impossible to say. At the end of November, Topper realized they were in real trouble. Apparently no or very few deals had been made at this point, however, in December the loans were $16 - $17 million, including Ford and the Company said they were going to make deals at this point. Mr. Siegel pointed out that there is dispute between Topper and City Bank at this point as to just what was agreed upon. It should be realized that the Company had had an exchange program for some time and that it had been their normal practice to exchange goods wherever possible. However, at this point certain goods would be returned for which the Company had no merchandise for which to exchange so merchandise started to accumulate. In reply to a question, January 27, 1972

INSERT PAGE 5 WHERE INDICATED

TOPPER CORPORATION

Some of the deal business was started in November, unknown to First National. Again, the company claims that due to pressure from the bank, they had decided deals had to be made. At this point, the over-advance was approximately $2½ million. With Mr. Siegel again making the point with the disbursements, the deficiency at this time would be about $5½ million. Mr. Siegel summed up with the fact in his opinion that accounts receivable were approximately $8 million; however, that they would collect only $4 million. He further makes the point that this $4 million will be after adding back Sesame sales because they are normally to the same customers and there will be offsets.

When questioned as to the verification process, Mr. Siegel mentioned this was most difficult due to various programs & formulas so that many customers did not know what they owed. He is obviously indicating that City Bank also lost a great deal of control because they did not know where to apply receipts as they could not identify invoices being paid.

Mr. Siegel's comments as to what City Bank gets from Topper on an ongoing basis: sales journal, bills of lading, copies of the invoices and the assignment. They also get the credits, copy of the credit memorandum, the credit journal, checks and a cash journal. They have a statement every month and a detailed aging. At this time much of our effort is to get the company to run an update so that the cash collected could be applied so that City Bank is in a position to notify. We also, of course, would like to know the credits so that the statements going out could be as accurate as possible.

Mr. Siegel indicated that advertising allowances are a gimmick, however, normally they are covered by a contract. At about this same time Kresge had paid in full and had a credit balance so that when new merchandise was shipped it was deducted on a current basis so that the bill on hold was not paid for.

Coming back to the $5 million in transit Topper has not issued credits for this so it hasn't been accepted. Physically, a lot of these goods are back in Elizabeth but not accepted. Freight is subject to discussion.

Insert Back to [illegible]

At this point Mr. Duncan asked for break-down of inventory by item. Mr. Rose replied this could be done; however, if the computer is shut down, it would be a disaster as it would be most difficult to take data to an outside service bureau. As of now, they owe IBM $125,000 and the rate is $25,000 a month.

There are approximately 75 major vendors, with a total of 800. Payables are between $11 million and $12 million, with $9 million being concentrated in 84 vendors, with the 12 largest holding $6.8 million. We have an accounts payable run as of 12/31 before adjustments.

CBWL-Hayden Stone began their discussion. Mr. Henry Clark, for the most part, presented the investment bankers viewpoint. The main problem is corporate discipline, and, in his view, are not dishonest. They are good salesmen but not good marketing people. The company is dominated by an individual who is sales-oriented. They think highly of Mr. Rose, who is overruled. The company is not all bad as it has good products and Sesame can be sold on short datings. There has been much fat in the company, and advertising is much too high for sales volume. He had assumed that Mr. Orenstein would have to go. He says, however, that he now feels that he must be kept because he is a creative genius. The Sales Vice President must go so that the company needs a chief operating officer and a marketing man.

Mr. Clark feels that break-even is somewhere around $37 million. Working from a $37 million break-even figure, Mr. Clark feels a comprehensive program can be worked out; however, the detail must come later with a general plan in the interim. He also mentioned that he couldn't reconcile the numbers as presented. Mr. Clark now described the potential involvement of National Acceptance. Apparently, Mr. Clark has worked from time to time with Mr. Hy Gains, president of National Acceptance, and his Executive Vice President, Mr. Larry Teines (spelling?). Mr. Clark wants a week to work in the "trenches" as he puts it, with National Acceptance of roughly $21 million. He led the writer to believe that this would be some combination of a loan by National Acceptance against hard collateral, with the remainder being a new capital injection plus a conversion of existing debt to equity or some resetting of debt. A new executive committee of the Board would be created, made up of Messrs. Orenstein, Rose and a third man presumably representing the Investment Bankers. In this regard Mr. Clark was going to meet with Heidrick and Struggles, executive recruiters. With a deficit net worth, Mr. Clark appears to realize that it will be difficult to get a new chief operating officer and that it is highly unlikely new funds could be obtained without a substantial reduction in existing debt.

Mr. Jerry Feller from K-Sheller interrupted, at this time, to say that it was most unrealistic to feel that National Acceptance could do anything in a week. It is Mr. Feller's opinion that you are talking at least a month, and how could you keep the company going that long. Mr. Clark replied that he had tried to determine that a week is reasonable; however, he later admitted that Mr. Feller was probably right. However, Mr. Clark stressed that all they were asking for was $400,000 a week, which would be before collections. Mr. Clark concluded that at the end of the week CEWL would be in a position to make a decision as to their intent. He further indicated that he was aware the deficit net worth could be $3 million to $4 million, with at least $3 million needed, which could not be covered by any possible collateral.

Mr. Waldman pointed out he has no confidence in management and doesn't feel there is any basis for going forward. Mr. Hoffman states that they can sue as Assignee, but who knows what they will collect. In various courts, it is unlikely that verbal understandings would be thrown out. He believes that CEWL will work very hard to do something. In New Jersey, a Chapter 10 would take forever with serious implications.

Mr. Christie, talking for Manufacturers, indicated that the lenders don't have much to lose for a week. He feels the liquidation would be horrendous and that the lenders should do everything possible to keep Topper out of the courts.

Mr. Waldman again commented that the receivables and the floating inventory are the big questions. We don't have ETI inventory and how much is it. Five big jobbers get all kinds of credit, and he wonders about the status of those accounts. Manufacturers' liens cover finished goods, and Mr. Waldman believes their position is rather clear-cut. In response to a question, and with other things being equal, Mr. Waldman would vote on Monday to notify unless there is reasonable indication that Mr. Feller and CEWL will have a plan. At this stage, Manufacturers was rather evasive as to its intention a week from today. Mr. Christie indicated a Chapter would mean an injunction against our taking collateral. The SEC would get into the picture in a Chapter 10. Mr. Waldman indicates that if CEWL were not in the picture, he wouldn't spend five minutes with the company. Comments were further made that it would be at least two weeks before we know what the inventory status is and that there can be no certified figures before the end of March. Shipments since the last meeting approximately $900,000 for Sesame and $500,000 for Topper -- totaling $1,400,000.

After lunch the lenders went over a list of things we should ask for in return for the week and the $400,000. It, of course, was hoped that meaningful receivables could be generated during the week. Production should be for immediate shipment. It was understood that production had been cut back substantially. Mr. Clark and Mr. Wile were called back into the room, and they agreed that they would work closely with the lenders' representatives in keeping the company going. The company was then asked back into the room and they were given a list of the items the banks wanted:

1. ETI - The lenders want an assignment of the stock. However, Orenstein indicated this was a legal question and it would be done if the lawyers agreed; subsequently, all lawyers agreed that it was not wise to take the ETI stock.

2. Lenders want the same liens on ETI that they have on Topper.

3. Lenders want a man on the premises to look into the (a) deals, authority and so forth; (b) accounts receivable status on an account by account basis; (c) an understanding that there will be no more compromising.

4. Production for as many immediate sales as possible.

5. What is their estimate as to sales and collections during the next week so as to justify the $400,000.

6. Inventory by category, item, location and lien.

7. Evidence of cutbacks in expenses.

In summary, the meeting with the company ended with the understanding that the lenders must have a considerably greater understanding of our collateral and its control if the company was to have any hope of continuing as a growing concern past next Monday. After the company had left, the lenders continued more general discussion along with a disbursement of proceeds to date. In addition, the lawyers drafted a further amendment to the agreement of 12/27.

At a meeting attended by Siegal, Skaar, Schwartz and Obolsky in Jack Rose's office, Rose made the point that since collections had dried up letters would be sent to customers withdrawing offers previously made to settle the receivables.

Customers are also taking advantage as far as ETI is concerned. Rose had expected $2 million in collections from ETI and had only received about $900,000. He again made the point that funds tied up in unapplied deductions would result in considerably more money under this new policy. He was most upset over the advertising agency sending a letter to customers telling them to deduct their advertising from Topper's invoice and to pay the agency direct. Although Rose feels that legally there may be some justification for this in the case of some super jobbers, his overall opinion is that the agency has very little legal ground to stand on.

An interesting point made by Rose is that he now knows what all the deals are and that he can go back and reconcile the receivables. When again asked about the state of accounts he made reference to garbage in and garbage out and that if the lenders wanted an accurate picture that they must wait for proper adjustments to be made.

Discussion with Siegel concerning the receivable schedule as of 1/21

He says of the $4.7 million net $1.8 is collectible, $3.1 million is partially collectible with additional credits and $.4 million is not collectible. The total of these three items is $5.3 million of which he deducts $6 million of credit balances. He then adds back half of the credit balances for a new total of $5 million. The writer agrees that this is a reasonably accurate collectible number.

In account by account review the documentation backing deals reveals that the sales are rather incomplete. In many cases forms have been initialed by either Topper or the company and in some cases by both. Legal assistance will be needed to determine where most of these accounts stand as it relates to the documentation.

A 3635

1553

AMOUNT OF TOPPER CORPORATION PAST DUE OR INELIGIBLE RECEIVABLES REDUCED IN 1971 BY THE APPLICATION OF CUSTOMER CREDITS

PX	Date	Amount	Month-To-Date	Year-To-Date
101	January 15, 1971	$ 8,865.08	$ 8,865.08	
104	January 22, 1971	13,843.12	22,708.20	
105	January 25, 1971	104,261.26	126,969.46	
106	January 26, 1971	66,086.49	193,055.95	
107	January 27, 1971	243,260.80	436,316.75	
109	January 29, 1971	11,280.60	447,597.35	$ 447,597.35
110	February 1, 1971	65,453.69	65,453.69	
111	February 2, 1971	35,806.04	101,259.73	
112	February 3, 1971	25,624.74	126,884.47	
113	February 4, 1971	12,632.94	139,517.41	
114	February 5, 1971	12,903.89	152,421.30	
117	February 10, 1971	447,757.35	600,178.65	
122	February 23, 1971	21,088.46	621,267.11	1,068,864.46
139	March 25, 1971	13,475.00	13,475.00	
143	March 31, 1971	29,512.00	42,987.00	1,111,851.46
144	April 2, 1971	12,714.00	12,714.00	
146	April 6, 1971	145,000.00	157,714.00	
148	April 8, 1971	99,516.00	257,230.00	
149	April 12, 1971	43,725.00	300,955.00	
150	April 13, 1971	1,992.80	302,947.80	
151	April 14, 1971	41,755.00	344,702.80	
152	April 15, 1971	8,094.00	352,796.80	
156	April 21, 1971	3,071.76	355,868.56	
157	April 22, 1971	176,280.00	532,148.56	
158	April 23, 1971	9,883.00	542,031.56	
159	April 26, 1971	2,292.00	544,323.56	
162	April 30, 1971	14,029.00	558,352.56	1,670,204.02
164	May 4, 1971	4,900.00	4,900.00	
165	May 5, 1971	25,000.00	29,900.00	
167	May 6, 1971	523,284.33	553,184.33	
168	May 10, 1971	18,470.00	571,654.33	
170	May 12, 1971	3,346.00	575,000.33	
171	May 13, 1971	24,731.00	599,731.33	
172	May 17, 1971	38,197.05	637,928.38	
180	May 25, 1971	40,000.00	677,928.38	
182	May 27, 1971	29,432.00	707,360.38	2,377,564.40
184	June 1, 1971	117,000.00	117,000.00	
185	June 2, 1971	70,000.00	187,000.00	
191	June 10, 1971	75,000.00	262,000.00	
194	June 15, 1971	99,000.00	361,000.00	
196	June 17, 1971	14,273.00	375,273.00	
199	June 22, 1971	16,060.00	391,333.00	2,768,897.40
206	July 1, 1971	113,616.90	113,616.90	
213	July 14, 1971	26,543.00	140,159.90	
218	July 20, 1971	15,113.00	155,272.90	
221	July 23, 1971	103,796.26	259,069.16	3,027,966.56
246	August 18, 1971	72,939.00	72,939.00	3,100,905.56

PX1554

A 3636

[illegible]
[illegible] EXHIBIT 18 ID
DATE 2/8/75

AMENDMENT dated as of September 17, 1971, among FIRST NATIONAL CITY BANK, a national banking corporation (hereinafter called FIRST NATIONAL), MANUFACTURERS HANOVER TRUST COMPANY, a New York banking corporation (hereinafter called MANUFACTURERS) (FIRST NATIONAL and MANUFACTURERS being hereinafter sometimes collectively called the Banks), FORD MOTOR CREDIT COMPANY, a Delaware corporation (hereinafter called FMCC), and TOPPER CORPORATION (formerly DeLuxe Topper Corporation), a Delaware corporation (hereinafter called DLT), amending the Agreement dated October 4, 1966, as heretofore amended (hereinafter called the Financing Agreement), among FIRST NATIONAL, MANUFACTURERS and DLT.

Under the Financing Agreement as in effect immediately prior to the date hereof, the Banks have agreed to make loans (hereinafter called the Bank Loans) from time to time to DLT in an aggregate principal amount not to exceed $21,000,000.00 secured by receivables, inventory and other collateral owned by DLT (including an insurance policy or policies on the life of Henry Orenstein).

DLT has requested FMCC to make a loan to DLT in the principal amount of $7,000,000.00 and FMCC is willing to make such loan on the terms and conditions hereinafter provided, including provisions intended to give FMCC, as security for such loan, a security interest in the collateral securing the Bank Loans.

The Banks are willing to enter into this Amendment in order to induce FMCC to make such loan.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter contained, the parties hereto hereby agree as follows:

1. The terms used herein shall have the same meanings as in the Financing Agreement, except as specifically defined in this Amendment.

2. FMCC agrees to make a loan to DLT on the date hereof in the principal amount of $7,000,000.00 (hereinafter called the FMCC Loan), to be evidenced by a promissory note of DLT, payable to the order of FMCC, in the form of the promissory note attached hereto as Exhibit A, and subject to the terms and provisions set forth in such promissory note. Promptly after receiving said $7,000,000.00 DLT shall turn said moneys over to the Banks in reduction of the amount owing to them under the Financing Agreement.

3. As security for the payment in full of the FMCC Loan and all Obligations relating thereto, DLT hereby grants to FMCC a security interest in the Receivables, Inventory, machinery, equipment and all other personal property, tangible and intangible (including the insurance policy or policies on the life of Henry Orenstein referred to in the Amendment to the Financing Agreement dated February 16, 1967), referred to in the Financing Agreement as security for the Bank Loans (hereinafter collectively called the Collateral). The Banks agree that the FMCC Loan and the Bank Loans shall be secured pari passu by the Collateral, in proportion to the unpaid principal balances outstanding from time to time under the FMCC Loan and the Bank Loans.

4. FMCC shall have all the rights of the Banks under the Financing Agreement, except for rights of the Banks provided in

paragraph 8 thereof (relating to the finance charge of the Banks), paragraph 16 (relating to minimum compensation for the Banks), and that portion of paragraph 10 providing that all Obligations shall be payable on demand, with the same force and effect as if FMCC were one of the Banks referred to therein.

5. DLT hereby confirms the representations and warranties set forth in paragraph 2 of the Financing Agreement, as of the date hereof, for the benefit of the Banks and FMCC, with the same force and effect as if such representations and warranties were set forth herein.

6. The formula for advances under the Bank Loans, as set forth in paragraph 7 of the Financing Agreement, as heretofore amended, is hereby amended in its entirety to read as follows:

"The Banks shall make advances to DLT under the Bank Loans, at their discretion, in an aggregate amount at any time outstanding not to exceed the amount determined by subtracting the then outstanding principal balance of the FMCC Loan from the Borrowing Base (determined as of such time); provided, however, that the Banks shall have the right, in their sole discretion, to make overadvances to DLT not to exceed an aggregate amount at any time outstanding equal to 20% of the face amount of Eligible Receivables (determined as of such time).

"The term "Borrowing Base", as used herein, shall mean an amount determined as of any time equal to the sum of the following:

(a) 80% of the face amount of Receivables otherwise determined by the Banks to be eligible and then included in the Collateral representing merchandise sold and actually delivered on terms of sale not exceeding 120 days, after deducting from such face amount applicable discounts and such reserves as the Banks shall deem proper and necessary (herein called Eligible Receivables);

(b) 50% of the cost of merchandise sold by DLT under "Bill and Hold" arrangements; provided, however, that the outstanding amounts included in the Borrowing Base with respect to such Bill and Hold arrangements shall not at any time exceed $1,000,000 and the terms of sale thereunder shall not exceed 180 days; and

(c) 50% of the face amount of Receivables as to which DLT has granted to the purchaser an extension of time for payment from the original invoice payment date (hereinafter called Redated Receivables); provided, however, that the outstanding amounts of Redated Receivables included in the Borrowing Base shall not at any time exceed $1,000,000 and such extension of time in respect of any Redated Receivables shall not exceed 180 days from such original invoice payment date (except that Redated Receivables otherwise includible in the Borrowing Base shall continue to be so includible through September 30, 1971 notwithstanding the fact that they may have been subject to such an extension of time in excess of 180 days)."

7. The Banks hereby confirm their undertaking to continue to make loans to DLT under the Financing Agreement in an aggregate

principal amount at any one time outstanding not to exceed $16,000,000.00 through January 31, 1972, at which time the Banks shall determine the total of the financing accommodations to be made available to DLT for the ensuing year; provided, however, that the Banks shall not increase the maximum amount to be loaned above $16,000,000.00 outstanding at any time without the prior agreement of FMCC.

8. DLT shall not incur or permit to exist any indebtedness (other than the Bank Loans and the FMCC Loan) whether for borrowed money, under title retention arrangements or leases or otherwise, secured in any way by the Collateral, except for secured borrowings incurred for the purpose of providing compensating balances and except as permitted by paragraph 3 of the Financing Agreement and by the terms of the letter agreement dated July 17, 1970, as supplemented by letter agreement of December 31, 1970, among DLT, FIRST NATIONAL and MANUFACTURERS.

9. Each of the following events, if not cured within 30 days, shall constitute an additional event of default under paragraph 13 of the Financing Agreement with respect to the Bank Loans and the FMCC Loan:

(a) If the outstanding principal balances of the indebtedness secured by the Collateral shall in the aggregate at any time exceed the limitations hereinabove provided for;

(b) If the outstanding principal balances of the Bank Loans shall at any time exceed the applicable limit provided in paragraph 6 of this Amendment.

10. FMCC hereby appoints FIRST NATIONAL as its agent to accept and perfect a security interest in the Collateral and otherwise to deal

with the Collateral, and to exercise the rights of FMCC hereunder and under the Financing Agreement. With respect to the FMCC Loan, DLT is authorized to deal with FIRST NATIONAL in the manner provided in the Financing Agreement. At any time after the moneys due the Banks under the Financing Agreement shall have been completely paid FMCC shall have the right to revoke said agency by serving written notice of such revocation upon the Banks and DLT.

11. In the event that the Banks shall at any time decide not to extend the term of the Financing Agreement beyond January 31, 1972 or any subsequent extended termination date thereof, FIRST NATIONAL shall give FMCC and DLT prompt notice of such decision. If, within 45 days following any such decision, DLT shall fail to obtain financing from another financial institution on terms and in an amount comparable to the terms and amount provided in the Financing Agreement, and FMCC shall give DLT written notice of such failure, such failure shall constitute an additional event of default under paragraph 13 of the Financing Agreement with respect to the Bank Loans and the FMCC Loan.

12. DLT shall not refer to FMCC, FORD MOTOR COMPANY or any of their affiliates in connection with any of its advertising or sales promotion activities.

13. DLT shall reimburse FMCC [illegible] all its out-of-pocket expenses, including fees and disbursements of special counsel for FMCC, if any, in an amount not to exceed $5,000.00.

14. The provisions of the Financing Agreement shall remain in full force and effect until all of the Obligations (including the FMCC Loan and the Bank Loans) shall have been paid in full.

15. Except as amended hereby, the Financing Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first written above.

Attest:

____
Secretary

FIRST NATIONAL CITY BANK

By____________________________
Vice President

~~Attest:~~

____
~~Secretary~~

MANUFACTURERS HANOVER TRUST COMPANY

By____________________________
Vice President

Attest:

____
Secretary

FORD MOTOR CREDIT COMPANY

By____________________________
Loan Officer

Attest:

____
Secretary

TOPPER CORPORATION

By____________________________
Executive Vice President

The undersigned, which are sub-participants in FIRST NATIONAL's participation in the Bank Loans pursuant to a Letter Agreement dated April 1, 1968, hereby consent to the foregoing Amendment and agree to be bound by the terms thereof.

Dated: September , 1971.

FIDELITY UNION TRUST COMPANY

By____________________________
Vice President

MERCANTILE BANK OF CANADA

By____________________________
Vice President

Exhibit A

TOPPER CORPORATION

$7,000,000 PROMISSORY NOTE

New York, New York
September 17, 1971

FOR VALUE RECEIVED, the undersigned, Topper Corporation, a Delaware corporation (hereinafter called the Company), promises to pay to Ford Motor Credit Company, a Delaware corporation (hereinafter called FMCC), or order, at its office at The American Road, Dearborn, Michigan, or at such other place as the holder hereof may from time to time designate in writing, in lawful money of the United States of America, the principal sum of $7,000,000 on December 31, 1976, or sooner as hereinafter provided, and interest (computed on the basis of the actual number of days elapsed over a year of 360 days) from the date hereof, in like money, on the principal balance remaining unpaid from time to time at a variable rate equal to the Prevailing Prime Rate (as hereinafter defined) in effect from time to time plus 5½% per annum, but in no event less than 11½% per annum or more than 14% per annum, payable on the last day of each March, June, September and December in each year, commencing September 30, 1971, until the unpaid principal balance hereof shall be paid in full (whether before or after maturity).

As used herein, Prevailing Prime Rate shall mean the highest of the respective rates in effect from time to time at First National City Bank, Manufacturers Hanover Trust Company, Continental Illinois National Bank and Trust Company of Chicago and Bank of America National Trust & Savings Association for new 90-day, unsecured loans, to substantial and responsible commercial borrowers. For the purpose of computing interest, the Prevailing Prime Rate in effect on the first day of each month shall be deemed to be the rate in effect throughout such month.

The Company shall make a payment of principal of this Note in the amount of $875,000 on each quarterly interest payment date commencing March 31, 1975.

This Note may be prepaid in whole (but not in part) at any time on or after December 31, 1972, upon not less than 30 days prior written notice from the Company to the holder hereof specifying the date fixed for prepayment. Any such prepayment shall be accompanied by accrued interest to the date fixed for prepayment together with a prepayment premium (representing a percentage of the principal amount prepaid) determined as follows:

Period in which Prepaid	Prepayment Premium
December 31, 1972 through December 30, 1973	9%
December 31, 1973 through December 30, 1974	6%
December 31, 1974 through December 30, 1975	3%

After December 30, 1975, this Note may be so prepaid without premium.

This Note is secured by an agreement dated October 4, 1966, as amended, among the Company, FMCC, First National City Bank and Manufacturers Hanover Trust Company (hereinafter called the Financing Agreement) and is entitled to the benefits thereof.

If an event of default (or an event which with the giving of notice would become an event of default) shall occur and be continuing under the Financing Agreement or under any other agreement relating to the borrowing of money to which the Company is a party, or if the Company shall fail to pay any instalment of principal or interest on this Note when and as the same shall become due and payable, the holder hereof, at its option, may by written notice to the Company declare the unpaid principal balance of this Note, and interest thereon, to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived.

This Note shall be deemed to have been made under, and shall be governed by, the laws of the State of New York in all respects, including matters of construction, validity and performance.

Attest: TOPPER CORPORATION

____
Secretary

By____________________________
President

A 3646

FIRST NATIONAL CITY BANK
HUBSHMAN FACTORS DEPARTMENT

DATE January 17, 1969

FROM A. J. Lusk, A. C. TO File

SUBJECT: Deluxe Topper Corp.

Further to David L. Holzman's memorandum of 1/14/69:

1. The following sub-limits are applicable for 1969, subject to approval of a new E. C. report.

Month-Ending	Inventory	M & E
February	$750,000.	-0-
March	825,000.	$1,500,000.
April	850,000.	2,500,000.
May	850,000.	1,500,000.
June	850,000.	1,650,000.
July	850,000.	60,000.
August	-0-	-0-

2. Peak exposure during April of $2.5MM on M & E portion is conditional on a 22% increase (over '68) of actual shipments and unshipped orders at 3/31/69. The following figures were agreed to:

	3/31/68	3/31/69
Shipments	$975M	$1,150M
Orders	$6,275M	$7,656M

Percent-agewise, shipments represent an 18% increase and orders are 22%.

If the client is unable to attain the projected sales and orders figures, H. Orenstein will not withdraw his junior participation of $1MM but will continue the participation until M & E exposure is reduced to $1.5MM. This feature to be covered by written agreement.

We will arrange with client to report at month end (Jan. and Feb.) shipments and orders and thru March on a weekly basis.

A. J. Lusk
Assistant Cashier

P. S. As in the past, during any month there may be a $400M deviation (shortage) in the above sub-limits which must be made good as of each month end.

PX 1555

A 3647

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE September 1, 1970

FROM Morton J. Siegel TO Contract File

SUBJECT: Topper Corporation

Pursuant to clients revised projections we will reflect $1,400,000 available for inventory sublimit, during the month of September.

This supersedes a sublimit in August of $1,500,000 and $750,000 over advance privileges.

After September 30th there will be no more availability on inventory but $500,000 over advance privileges are reinstated.

Morton J. Siegel
Assistant Vice President

MJS:et
cc: Ken Johnson
Bill Mooney

Approved ______
A. Lus[illegible] V.P.

Approved ______
E. Waldman V.P.

PX 1556

PX 1558 A 3648

FIRST NATIONAL CITY BANK
HUBSHMAN FACTORS DEPARTMENT

90 PARK AVENUE, NEW YORK, N. Y. 10016
TELEPHONE: 367-3700

June 6, 1967

Mr. Jack Rose,
Financial Vice President
DeLuxe Topper Corporation
107 Trumbell Street
Elizabeth, New Jersey

Dear Jack:

From time to time we have allowed you to sell machinery upon which we hold a lien. The following list includes those items which have not as yet been accounted for. I would appreciate it, therefore, if you would have this list checked and advise us whether these machines were sold and, if so, when payment was remitted to us.

	Description	Date of Your Request	Appraised Value	Expected Sale Price
51484	Ampex Model 300 Tape Recorder	5/10/67	$850	$1000
51766	Sentinel Model S-24 Heat Sealer Rapistan Conveyor Sr. #182469	5/11/67	$1250	$5000
[illegible] 50108 421 49549 49539	9 Type F Sentinel Blister Sealers	3/20/67	$550 each	$550 each
49619	4 Gorman Spin Winders	3/20/67	$750	$500
49614	3-#31 Bostitch Wire Stitchers	3/20/67	Not appraised	$33.33 e
49614	6 B-2 Allen Bench Pressers	3/20/67	$75 each	$50 each
49614	12 Coil Winders	3/20/67	Not appraised	$33.33 e
NOT SOLD [illegible]	Blister Sealer	2/21/67	$550	$500
76865	Labelrite Machine	2/21/67	Not appraised	$3500
	3 Mosle Machines [illegible]	2/9/67	$70,000	$60,000
49851	CL-40 Weldotron Shrink Sealer	3/29/67	$1500	$1000
49851	1220A Weldotron Shrink Tunnel	3/29/67	$1500	$1000
49557	2 Singer Bartack Model 269W26	3/28/67	$350 each	$350 each

A 3649

Mr. Jack Rose,
Financial Vice President

June 6, 1967

In addition, some time during March you arranged for the sale of machinery located in Puerto Rico (not under our lien). At that time, you remitted the deposit of $17,500. Since that time you have entered two notes (presumably $6500 each) for collection with Manufacturers Trust Company. Have these notes been paid?

Please let me hear from you at your earliest convenience.

Best personal regards,

Very truly yours,

Michael J. Palermo,
Assistant Vice President

RECEIVED
JUN 7 1967

PX 1559

TOPPER CORPORATION
CASH COLLECTION FOR 1969:
ACTUAL VERSUS PROJECTED

Month	Actual Collections (Per Advance Sheets)*	Projected Collections**	Difference	Cumulative Difference
January		$7,623,000		
February		1,200,000		
March	$ 359,491	300,000	$ 59,491	$ 59,491
April	400,423	300,000	100,423	159,914
May	1,174,169	980,000	194,169	354,083
June	1,422,077	1,880,000	(457,923)	(103,840)
July	3,460,619	3,460,000	619	(103,221)
August		4,660,000		
September	4,745,735	4,660,000	85,735	(17,486)
October	6,402,073	5,510,000	892,073	874,587
November	6,574,524	5,340,000	1,234,524	2,109,111
December	9,124,730	7,430,000	1,694,730	3,803,841

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* From PX 1563, 1564, 1565, 1566, 1567, 1568, 1569, 1570, 1571.

** From PX 1562.

TOPPER CORPORATION
CASH COLLECTION FOR 1970: ACTUAL VERSUS PROJECTED

Month	Actual Collections (Per Advance Sheets)*	Projected Collections**	Difference	Cumulative Difference	Projected Collections (Revised)***	Difference
January	$10,450,690	$9,650,000	$ 800,690	$ 800,690		
February	1,793,841	990,000	803,841	1,604,531		
March	854,023	1,080,000	(225,977)	1,378,554		
April	762,840	570,000	192,840	1,571,394		
May	1,537,008	4,260,000	(2,722,992)	(1,151,598)		
June	2,060,994	1,900,000	160,994	(990,604)	$2,500,000	$ (439,006)
July	3,959,900	3,780,000	179,900	(810,704)	3,200,000	759,900
August	3,815,987	4,210,000	(394,013)	(1,204,717)	4,500,000	(684,013)
September	6,128,101	5,450,000	678,101	(526,616)	5,500,000	628,101
October	6,073,790	6,760,000	(686,210)	(1,212,826)	6,800,000	(726,210)
November	6,485,973	9,520,000	(3,034,027)	(4,246,853)	7,500,000	(1,014,027)
December	7,154,151	9,830,000	(2,675,849)	(6,922,702)	11,500,000	(4,345,849)
						(5,821,104)

* CB ADM 64.
** PX 1366.
*** PX 673, CB ADM 61.

A 3651

PX 1562

PX 1561

TOPPER CORPORATION
CASH OPERATING DISBURSEMENTS FOR 1971: ACTUAL VERSUS PROJECTED *

Month	Actual Disbursements For Operations	Projected Disbursements For Operations	Difference	Cumulative Difference
January	$5,379,942	$4,975,000	$ 404,942	$ 404,942
February	5,508,664	5,219,000	289,664	694,606
March	3,304,733	3,398,000	(93,267)	601,339
April	3,761,526	2,296,000	1,465,526	2,066,865
May	5,659,855	5,576,000	83,855	2,150,720
June	6,274,007	6,382,000	(107,993)	2,042,727
July	4,326,713	4,844,000	(517,287)	1,525,440
August	4,824,427	5,893,000	(1,068,573)	456,867
September	4,745,946	6,494,000	(1,748,054)	(1,291,187)

*See PX 462, PX 1-5, PX 399-402, PX 6 and PX 333-341.

A 3653

CBX 12

UNITED STATES STEEL AND CARNEGIE PENSION FUND

436 SEVENTH AVENUE
PITTSBURGH 19, PA.

November 30, 1950

First National Bank of New York
2 Wall Street
New York, New York

Dear Sirs:

Please open a custodian account in the name of the undersigned and hold in it the securities which you may hereafter receive for this account.

You are hereby authorized with respect to this custodian account and with respect to the bank account of the undersigned designated as the "1950 Trust Account":

1. To cause to be registered and to hold in the name of your nominee all securities at any time in the custodian account requiring registration.

2. To collect and credit to the bank account of the undersigned all income with respect to the property held in the custodian account.

3. To surrender for payment maturing obligations and securities called for redemption and to credit the proceeds received to the bank account of the undersigned.

4. To exchange securities in temporary form for like securities in definitive form.

5. On the basis of properly authenticated duplicate brokers' advices furnished you by the undersigned, to deliver securities sold from this account against your receipt of the proceeds from such sale, which proceeds are to be credited by you to the bank account of the undersigned.

6. On the basis of properly authenticated duplicate brokers' advices furnished you by the undersigned, to accept securities for this account delivered to you by brokers and to make payment therefor from the bank account of the undersigned against delivery.

7. To charge the bank account of the undersigned for all expenses and assessments incurred by you or your nominee and for any taxes or other charges required to be paid by you or your nominee in connection with the custodian account. The undersigned agrees to indemnify you or your nominee against liability for all such items and you shall have a lien therefor upon any property in the custodian account.

You agree to furnish the undersigned as at the end of each month a list of all securities in the custodian account.

You agree to provide the undersigned with investment advice with respect to any government bonds or other securities held from time to time in the custodian account or with respect to any cash held by the undersigned for investment.

You or your nominee are hereby authorized in your discretion and without consulting the undersigned to vote, and to grant proxies to vote, with respect to routine matters, all securities which may be held at any time in the custodian account, but it is understood that you or your nominee shall not in any event be obligated so to vote, or to grant proxies to vote, any of such securities. Securities held in the custodian account shall not be voted by you or your nominee with respect to any special matters, except in accordance with instructions received by you from the undersigned.

As compensation for your services as stated herein, you are to be paid a fee at the annual rate of 1/20th of 1% of the market value of the securities or other investments, exclusive of securities of United States Steel Corporation or its subsidiaries, in your custody as of the end of each calendar quarter. Such fee will be payable quarterly beginning with the payment for the first quarter of 1951.

This agreement may be terminated by either of us on thirty days written notice to the other, and in such event all fees are to be prorated.

You shall not be liable for any action or omission to act or for any information or advice given or recommendations or suggestions made, in the absence of wilful misconduct on your part.

You are hereby authorised to accept and act upon any instructions with respect to the custodian account when given by the Chairman of the Committee on Finance of the undersigned or by any person certified to you by said Chairman of the Committee on Finance as being authorised to give such instructions.

A 3655

If this meets with your approval, please indicate your acceptance below.

Very truly yours,

UNITED STATES STEEL AND
CARNEGIE PENSION FUND

By /s/ M. D. Howell
Chairman, Committee on Finance

ACCEPTED:

First National BANK of the City of New York

By /s/ Grant Keehn
Exec. V. P.

Date November 30, 1950

CBK13

A 3656

CBX 13

Unhed Sta s Steel and Carnegie Pension Fund, Inc.

1 BROADWAY, NEW YORK 6, N.Y.

RECEIVED
APR 9 1959
F.D.F.

April 3, 1959

DEPT.
DATE

First Nation Bank of New York
22 William St
New York 15, ork

Dear Sirs:

understood that you are agreeable to amendment of the
Custodian Ag dated November 30, 1950, with respect to the 1950
Trust Accoun by substitution of the following provisions.

e hereby authorized with respect to the Custodian Ac-
count and wit ct to the bank account of the undersigned designated
as "1950 Trus ount B-17":

1. se to be registered and to hold in the name
nominee all securities at any time in the
ian account requiring registration.

2. ect and credit to the bank account of the
igned all income with respect to the property
n the custodian account.

3. render for payment maturing obligations and
ities called for redemption and to credit the
ds received to the bank account of the under-

4. ange securities in temporary form for like
ties in definitive form, and

5. spect to other transactions in securities,
pt directions as set forth in resolutions
d by the Committee on Finance of United
Steel and Carnegie Pension Fund, Inc. now
with you and as may hereafter be filed with

gree to furnish the undersigned as at the end of each
month a list l securities in the custodian account.

gree to provide the undersigned with investment advice
with respect , government bonds or other securities held from time
to time in th odian account or with respect to any cash held by the
undersigned F estment.

Y your nominee are hereby instructed to sign all proxies and to forwa proxies and proxy statements to the undersigned for review. Yo lso requested to deliver to the undersig d all other material rec y you or your nominee in connection with securities held for our nt.

A pensation for your services, as stated herein, you are to be paid e as may be mutually agreed upon from time to time. Such fee wil ayable quarterly.

T greement may be terminated by either of us on 30 day's written noti the other and in such event all fees are to be prorated.

Y ree as custodian to give the securities or other property received or y you from time to time subject to this agreement the same care an ection as you give to similar securities and property owned by you.

I is meets with your approval, please indicate your acceptance below.

Very truly yours,

UNITED STATES STEEL AND CARNEGIE PENSION FUND, INC.

By R.C. Tyson
Chairman, Committee on Finance

ACCEPTED:

By
Vice President

Date 6 9 1959

7 1/2% Convertible Subordinated Notes
due September 30, 1986

A 3658 [illegible] CBX 15
[illegible] 4/10/75

The following is a chronology of events and facts that lead up to our investment on September 28, 1971 in Topper Corporation:

July 16, 1971	Received a memorandum from CBWL-Hayden, Stone Inc. dated July 1971 containing an outline of terms of the deal, history and business of the Company, financial statements and a prospectus dated April 29, 1971.
Late July - Early August	Leonard Hieronymus (LCH) had several telephone conversations with Jay R. Inglis of CBWL-Hayden, Stone Inc.
July 31, 1971	Article in New York Times describing Sesame Street's relationship with Topper for the manufacture of toys.
August 9, 1971	Letter from Jack Rose on ten largest customers plus financial statements for the six months ended June 30, 1971. The Balance Sheet at June 30, 1971 showed bank borrowings of $20,301,714.
August 11, 1971	LCH visited the Company's showroom in New York City and facilities at Elizabeth, New Jersey. At Elizabeth, New Jersey, LCH talked with most of the Company's officers. Jack Rose displayed many computer programs used in sales and inventory control. One computer run on the latest orders for toys totaled $53 million in potential sales for the year to date. Jack Rose said that about 5% to 7% of the $53 million could be returned for adjustments. In questioning when a sale was recorded, Jack Rose said a sale was placed on the books when the goods were shipped. These sales were made with no repurchase agreements available to the customer. A question on the collection of the $14 million in receivables made on extended terms was asked by LCH. LCH asked if most of these extended term receivables had been collected since the eight-month period was nearing to a close and an affirmative answer was given with no indication of slowness. LCH asked about what method was used to tell how well a particular toy was moving. Jack Rose said that weekly field checks were made by special teams to keep them posted.
August 18, 1971	Jay Inglis called LCH to update him on revised terms and the impact of the 10% surcharge on Topper.
August 19, 1971	Wall Street Journal article on Topper concerning 10% surcharge and projection for 1971 sales and earnings.
August 19, 1971	Letter from Jack Rose on Topper's break-even point and copies of the Ford agreements.

August 24, 1971 and August 25, 1971	Telephone checks on two of Topper's larger customers.
September 16, 1971	Letter from White & Case acting as special counsel for the lenders as well as counsel for Topper Corporation.
September 28, 1971	Telegram for closing confirming that we executed the Purchase Agreement.

LCH:emk

January 21, 1972

A 3660

CBX 28

C Holzmak Ex. 28

CREDIT

[✓] 2 YRS. JV/?14
[ ] PERMANENT
[ ] SSF

TOPPER CORPORATION Elizabeth, New Jersey

In a telephone conversation with Henry Orenstein followed by lunch with David Downs and Jack Rose, the following pertinent facts were developed

1.) Due to delays in production of Johnny Lightning cars, Topper will not be able to meet projected sales for the following months:

	Projected Sales	Revised Sales
May	4,500,000	4,250 000
June	6,000 000	5,300,000
July	6,000,000	5,500,000

CE... JTING
...cher
A/C Exec.
READING FILE
CONTRACT FILE

Topper expects to be caught up by August and will not only make up the lost sales over the balance of the year but will exceed them as they now plan to produce 22,000,000 Lightning cars in place of the 18,000 000 originally projected.

2.) Originally, the cars were to be manufactured by Gruise Bros., Inc. However, because their production fell below expectations, Topper has installed production lines to supplement the Gruise production. As a result the added costs and diminished shipments prevented Topper from meeting its revised projection. The matter is one of timing for they fully expect to catch up and in fact go ahead of their projections by year end.

3.) Lines Brothers, an English manufacturer of toys, has distribution rights for Topper products outside of the western hemisphere. Because of the tight money situation in England, Lines Brothers has offered to give up its common stock holdings in Topper (10%) in exchange for redemption of its $1,000,000 of preferred stock. Lines Brothers will continue to distribute in England & Australia but the rest of the world will revert to Topper To accomplish this, the stockholders intend to lend $1,000,000 to the company plus an additional $700,000 to provide in part the cash flow needed by Topper in view of the delays of shipments and increase in expenditures as explained above. Topper has requested that we, on our part, lend some assistance Existing projected availability against fixed assets were scheduled to be reduced from 1,975,000 to 1,138,000 on June 30th and from 1,138,000 to zero on July 31st. Topper has asked us to delay each of these reductions for a period of three weeks. We have consented to do so upon condition that the $1,700,000 loaned by the stockholders be subordinated until our loan has been cleaned up.

[illegible]

David L. Holzman, VP
Factoring/Commercial Finance

May 15, 1969

CBX29

A 3661

FIRST NATIONAL CITY BANK

[illegible]

DATE: August 5, [illegible]

FROM: A. J. Lusk, A.V.P.

TO: Contract File ✓

SUBJECT: Topper Corporation

Luncheon discussion today, attended by:

Topper

David Downs
Jack Rose
Julie Schwartz

Bank

Edward Waldman
David Holzman
Charles Marotta
Al Lusk

High lights as follows:

1. Suit by Mattel - involved a particular segment of "Johnny Lightning "T V advertsing and a blister package used for the cars. Mattel motion denied by the court. Harassment seems to be motive for suit and Topper may institute counter suit on that basis.

2. Projected volume of $50MM assured. How much more than $50MM they can accomplish depends on order mix and production availability. Net profit is expected to be substantially more, THAN projected. Expenses under good control.

3. Production of Johnny Lightning cars from outside source still disappointing but being offset by rapid and successful start-up of production for this item in Elizabeth plant. Quality better than outside source.

4. The delivery from the Far East of the "busy baby" doll continues to be delayed.

5. Points 3 and 4 have therefore effected a lower sales level than expected for these two items but for the most part that fall has been made up by other items.

Citibank [illegible] fil

[illegible] 7/30/75

CBX29

A 3662

FIRST NATIONAL CITY BANK

FACTORING AND COMMERCIAL FINANCE [illegible]

DATE

FROM

TO

SUBJECT:

-2-

6. Jack Rose expects they will be able to live within the overall credit limit of $13.3MM. However, all though collections have been better than projected, they are nevertheless unpredictable on a week to week basis. Therefore, there may be a necessity for an additional $500M of line. They are not requesting the increase but are merely advising of the possibility. Bulge, if it does occur, will be in October.

7. M & E (Chattel) and Inventory sub-limits were discussed. The following schedule is herewith approved.

M & E	$1,000M	thru	8/31
Inventory	$1,250M	thru	9/30

The M & E extension is only a week or ten days beyond what was previously approved. The inventory is an extension and increase from the previously approved $900M.

8. [illegible] recommending [illegible] an approved over-advance of $500M (representing less than 5% of eligible accounts receivable) for the present $400M over-advance. New over-advance to be recouped monthly as heretofore. This will also partially cover the difference in M & E projected figure of $1,150M vs. our sub-limit of $1MM.

A. J. [illegible]
Assistant Vice President

LIMITS APPROVED AS ABOVE

CBX 30

[illegible] NATIONAL CITY BAN A 3663

FACTORING AND COMMERCIAL FINANCE DEPARTMENT

30 DATE May 4, [illegible]

FROM [illegible] Siegel, A.V.P. TO Contract file

File

J. W.

SUBJECT: Topper Corporation

Mr. Edward Waldman, V.P., David Holzman, V.P., Albert Lusk, A.V.P., and Morton Siegel, A.V.P., of our office met with Henry and Maurice Orenstein, David Downs and Jack Rose of Topper Corporation at lunch.

Mr. Henry Orenstein appraised us of the Corporation's recent progress and extremely optimistic future, however, the basis for this meeting was to discuss the possibility of their not being able to consumate a 3.8 Million dollar public stock offering which they had already budgeted. This possibility posed two problems, one being a two Million dollar note which is due on June 2nd, plus a short fall on working funds of 1.25Million.

Three possibilities were explained to us.

1. There is a 50-50 chance this offering would go through as planned, thereby making this matter academic.
2. The offering might go through, but because of market conditions and S.E.C approval being delayed, it might take some time (60-90 days)
3. They will put through a private offering for two Million* which would take a few weeks (60-90 days) and sales would generate enough to provide working funds from us over that period to cover our over advances.

In other words, Topper Corporation is seeking a commitment from us in case their offering is not available by June, of an additional 3.25 Million together with 3.5 Million already projected or a total of 6.75 Million in non-receivable loans. This together with normal requirements, would bring over-all loan in the month of June to approximately 18 Million or 2 1/2 Million over our present line.

Mr. Orenstein indicated that because we were "his bankers" and of Topper's excellent potential, they were entitled to this consideration.

CRX 3e

*[illegible] would nullify the [illegible] of the public stock offering.

FIRST NATIONAL CITY BA   A 3664

FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE

OM   TO

SUBJECT:

-2-

Mr. Waldman stated he would find it difficult to get m[illegible]es to go over their present line in non-receivable loans. Also, stock offerings as a take out has had their problems.

The matter was left in abeyance. Subsequently, Messrs. Waldman, Lusk, Siegel discussed the matter and concluded we could not justify an additional 3.25 Million in non-receivable loans for this client at this time based on collateral we have.

Therefore, if the offering is achieved, the matter is closed. If the two Million in private placement is needed and we would be required to advance an additional 1.25Million, some consideration might be given to this. However, if neither is accomplished and we are asked for 3.25 million, this possibility appears doubtful.

Morton J. Siegel
~~Assistant~~ Vice President

MJS/ec

[illegible] 31 [illegible]
[illegible] 1/30/[illegible]

A 3665

F[illegible]ST NATIONAL CITY BA[illegible]
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

☐ GENERAL CREDIT
☑ 2 YRS. (W/H
☐ PERMANENT
☐ SSF

DATE July 8, 1970

FROM M. J. Siegel A.V.P. TO Contract File

SUBJECT: Topper Corporation

Mr. Orenstein, Rose and Downs met with Mr. Waldman, V.P., Holzman V.P. and Lusk and Siegel A.V.P.'s to discuss cash flow requirments for the next few months. Client also presented their May 31st monthly financial report showing a profit for the month of $30M, with year to date loss of 1.345M.

Mr. Orenstein preceided the discussion by reafirming their intention of paying out the bank by seasons end which is around Jan. 20th of 1971. He also stated they have taken steps to "roll over" long term debt of 5 million which is due in June 71 to Jan.72. He estimated approximately 4 million if not all will be "rolled over" at the same intrest rate but with a stock bonus. He also stated they are planning to liquidate inventory at a faster pace toward seasons end by flying in merchandise, while more expensive, it would help their cash flow. Furthemore he stated they expect to primarily deal in low price goods which are more saleable and less of a financial problem to maintain.

In the meantime they would need continued non receivables help for an additional 60 to 90 days by maintaning our M&E loan for that period. Also their line would have to be increased because of slower turnover of accounts receivable. This was due to extra dating and rebilling of car assortments taken back and re-shipped that now carry new terms.

Mr. Waldman requested that client submit new cash flow projections for our consideration which is expected in about a week. At that time we would be in a better position to make any decision as to their requirments.

Morton J. Siegel
Assistant Vice President

P+L cash flow before
[illegible] charge of 1.8mm
[illegible] 4.5mm.
[illegible]

FINANCE ROUTING
~~DUNN~~
HOLZMAN
LUSK
FISCHER
A/C EXEC.
READING FILE
CONTRACT FILE
E. WALDMAN

A 3868

TO C. Waldman TUBE NO.

E. Tappin

REMARKS 5/31/70 statement

1 - [illegible] No. 3 - note substantial

increase (A & B) in selling & adv

expense & amortization of [illegible]

2 - Pg. [illegible] [illegible] [illegible]

☐ SEE/PHONE ME
☐ FOR YOUR USE/FILE
☐ NOTE & RETURN

☐ RETURN WITH REPLY
☐ FOR YOUR COMMENTS
☐ NOTE & SEND TO

☐ DO YOU APPROV
☐ MAY BE DESTROY

FROM (NAME, LOCATION, TUBE NO.)	TEL. EXT.	DATE

BF 1041 REV., 4-63

FIRST NATIONAL CITY BANK

[illegible] A 3667 CBX 33
[illegible]

Memorandum January 6, 1972

Topper Corporation

(Telephone conversation with Jack Rose, Financial Vice President, Topper)

I called Mr. Rose today to try to obtain more up to date figures for my
memorandum to the Committee on Finance about the Topper situation. He indicated
that he is now trying to close the books for December and thus does not still have
accurate numbers. He did, however, supply me with some useful information for
my memorandum.

In addition, Mr. Rose made the following points in our conversation:
(1) Mr. Hole and I conveyed our message effectively to Mr. Waidman,
and he feels under considerable pressure;
(2) FNCB knew of Ford's money as it saw documentation relating to
Topper's going unsecured;
(3) Topper requested the provisions in the Ford Agreement to go unsecured;
(4) In August, Mr. Waidman knew U.S. Steel Pension Fund money was being
considered for investment in Topper. Mr. Rose said that FNCB did
not request this money but that Mr. Orenstein handled most of the
deals with the bank;
(5) Mr. Rose said that FNCB was informed that we would be making a commit-
ment to Topper within a day or two after the meeting with Mr. Fels
and me at our offices prior to my writing the decision memorandum;
(6) Mr. Rose said that the reason for the delay in the Ford closing, was
that "they move slowly".

I asked Mr. Rose if his company had approached Manufacturers' Hanover
about taking over the FNCB commitment should that bank drop out of the loan agreement
but he does not believe that the timing is currently right to make this move.
He emphasizes that the company is making every effort to make a good showing
between now and the January 24th meeting with the banks, so that they will continue
to supply funds.

Henry L. Thompson

A 3668

City Bank X-34-70 (KRK) 8/5/75

CERTIFICATE

I, Jack J. Rose, Senior Vice President-Finance of Topper Corporation, a Delaware Corporation (herein called the "Company"), do hereby certify that:

1. Attached hereto, pursuant to Section 8 of the Purchase Agreement ("Purchase Agreement") dated as of September 28, 1971 between the Company and certain purchasers of the Company's 7-1/2% Convertible Subordinated Notes due September 30, 1986 are (i) a balance sheet of the Company and a consolidated balance sheet of the Company and its Subsidiaries as of September 30, 1971, (ii) a statement of operations of the Company and a consolidated statement of operations of the Company and its Subsidiaries for the nine month ended September 30, 1971 and September 30, 1970 in comparative form, (iii) a copy of the Company's quarterly report on Form 10-Q in the form to be filed with the Securities & Exchange Commission, (iv) a copy of a report in the form sent to the Company shareholders under a cover letter dated October 27, 1971 from the President of the Company, and (v) calculations showing as of September 30, 1971 the status of the ratios and tests set forth in subclause (i) of clause (c) of subsection 14.1, and

sections 18 and 19 of the Purchase Agreement.

2. The enclosed financial statements (subject to year-end adjustments) present fairly the financial condition of the Company and the Company and its Subsidiaries as of September 30, 1971 and the results of operations of the Company and of the Company and its Subsidiaries for the nine months ended September 30, 1971 in comparative form with the corresponding figures for the nine month ended September 30, 1970.

3. To the best of my knowledge there exists no condition, event or act which constitutes an Event of Default (as defined in the Purchase Agreement) or which, with notice or lapse of time, or both, would constitute an Event of Default.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Company this 12th day of November 1971.

Jack J. Rose,
Senior Vice President-Finance

Witness

[Seal]

TOPPER CORPORATION

BALANCE SHEET
SEPTEMBER 30, 1971

		1971	1970
ASSETS			
CURRENT ASSETS			
CASH-NOTE 1-		$ 1,304,688.28	$ 1,665,345.95
ACCOUNTS RECEIVABLE - NET		38,664,770.43	23,374,357.49
INVENTORIES-NET		10,568,467.45	8,202,245.41
PREPAID EXPENSES		1,047,274.93	1,047,861.91
UNABSORBED EXPENSES		1,000,619.43	2,411,2[illegible]
TOTAL CURRENT ASSETS		$52,585,045.52	$37,201,[illegible].15
PROPERTY, PLANT AND EQUIPMENT-NET		$ 3,367,293.93	$ 3,998,294.97
MOLDS AND DIES-NET		2,047,049.70	4,059,354.97
OTHER ASSETS		552,774.11	21,437.38
TOTALS		$ 5,967,117.74	$ 8,069,792.32
TOTAL ASSETS		$58,552,963.26	$45,270,937.47
LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES			
LOAN PAYABLE TO BANK		$ 9,962,966.87	$18,994,354.10
ACCOUNTS PAYABLE		8,613,882.27	7,493,756.95
ACCRUED EXPENSES		1,014,026.66	1,069,156.05
10% NOTES DUE JANUARY 31, 1972		3,850,000.00	3,150,000.00
TOTAL CURRENT LIABILITIES		$23,440,875.80	$30,707,277.12
LONG TERM DEBT		$12,326,067.60	$ 1,958,310.05
FEDERAL INCOME TAXES		$ 2,021,922.00	807,000.00
STOCKHOLDERS EQUITY			
PREFERRED STOCK.			
5% CUMMULATIVE PREFERRED PAR VALUE $100			
AUTHORIZED 30,000 SHARES			
OUTSTANDING 30,000 SHARES		$ 3,000,000.00	$ 3,000,000.00
COMMON STOCK			
AUTHORIZED 5,000,000 SHARES			
OUTSTANDING 3,779,826 SHARES		3,779,826.00	3,059,824.00
CAPITAL SURPLUS		8,751,390.32	3,309,663.42
SURPLUS		5,356,920.63	3,332,663.74
		$21,088,136.95	$12,712,151.16
LESS, TREASURY STOCK			
5% CUMULATIVE PREFERRED 10,548 SHARES	$1,054,000.00		
COMMON STOCK 50,600 SHARES	70,039.89	1,124,039.89	1,103,[illegible]
TOTAL STOCKHOLDERS EQUITY		$19,963,297.06	$11,[illegible].27
TOTAL LIABILITIES & STOCKHOLDERS EQUITY		$50,552,963.24	$45,270,937.47

A 3570

TOPPER CORPORATION

STATEMENT OF OPERATIONS
FOR THE PERIOD JANUARY 1 TO SEPTEMBER 30, 1971

	MONTH OF SEPTEMBER 1971	MONTH OF SEPTEMBER 1970	YEAR-TO-DATE 1971	YEAR-TO-DATE 1970
INCOME				
NET SALES	$10,327,860.55	$6,724,820.01	$37,707,407.84	[illegible]
TOTAL INCOME	10,327,860.55	6,724,820.01	37,707,407.84	[illegible]
COST AND EXPENSES				
COST OF SALES	4,888,714.71	3,768,089.31	20,157,804.72	18,438,429.00
AMORTIZATION OF MOLDS AND DIES				
APPRAISAL	109,850.53	109,826.00	988,654.77	[illegible]
OTHER	367,472.57	225,958.08	2,115,454.11	[illegible]
	477,323.10	335,784.08	3,104,108.88	[illegible]
DEPRECIATION				
APPRAISAL	36,790.21	48,372.41	400,254.67	320,594.56
OTHER	44,635.62	29,260.14	251,977.87	[illegible]
	81,425.83	77,632.55	652,232.54	[illegible]
OPERATING EXPENSES				
SELLING AND ADVERTISING EXPENSES	1,815,113.15	1,192,758.17	6,827,383.57	6,760,159.67
ADMINISTRATION AND GENERAL EXPENSES	176,234.59	212,483.18	1,363,965.50	1,159,273.11
ENGINEERING, RESEARCH AND DEVELOPMENT EXPENSES	89,079.90	83,277.34	766,684.40	[illegible]
	2,080,427.64	1,488,518.69	8,958,033.47	8,673,255.25
INTEREST EXPENSE				
BANK	170,177.97	139,611.52	1,302,489.44	1,086,893.85
OTHER	37,527.77		368,870.28	[illegible]
	207,705.74	139,611.52	1,671,359.72	[illegible]
DEBT DISCOUNT - AMORTIZATION	21,706.22	24,591.43	344,826.08	358,723.36
OTHER DEDUCTIONS	26,922.03-	3,716.12	232,600.69-	16,312.57
FRANCHISE TAXES	78,129.35	41,695.00	89,601.46	41,695.00
TOTAL COST AND EXPENSES	7,808,510.56	5,879,638.70	34,746,366.18	[illegible]
NET INCOME BEFORE FEDERAL INCOME TAXES	2,519,349.99	845,181.31	2,961,041.66	1,746,984.92
PROVISION FOR FEDERAL INCOME TAXES	1,198,787.81	553,280.37	1,358,922.80	[illegible]
NET INCOME/LOSS	$ 1,320,562.18	$ 291,900.94	$ 1,602,118.86	$ 939,954.92

A 3072

TOPPER CORPORATION

CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 1971

		1971	1970
ASSETS			
CURRENT ASSETS			
CASH-NOTE 1-		$ 1,378,003.40	$ 1,686,626.02
ACCOUNTS RECEIVABLE - NET		36,184,275.74	22,561,956.13
INVENTORIES-NET		10,878,229.20	8,544,653.41
PREPAID EXPENSES		1,092,471.72	1,054,172.35
UNABSORBED EXPENSES		1,074,521.90	2,973,075.15
TOTAL CURRENT ASSETS		$50,607,501.96	$38,822,331.07
PROPERTY, PLANT AND EQUIPMENT-NET		$ 3,801,520.58	$ 4,284,610.19
MOLDS AND DIES-NET		2,444,502.29	4,131,405.53
OTHER ASSETS		12,988.23	20,154.88
TOTALS		$ 6,259,011.10	$ 6,436,170.60
TOTAL ASSETS		$56,866,513.06	$45,258,501.67
LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES			
NOTES PAYABLE TO BANK		$ 9,962,794.79	$19,093,491.95
ACCOUNTS PAYABLE		9,238,509.82	8,678,354.46
ACCRUED EXPENSES		1,015,254.29	1,170,236.55
10% NOTES DUE JANUARY 31,1972		3,850,000.00	3,359,000.00
TOTAL CURRENT LIABILITIES		$24,066,558.90	[illegible]
LONG TERM DEBT		$12,326,867.60	$ 1,958,330.00
FEDERAL INCOME TAXES		$ 1,745,558.80	163,000.00
STOCKHOLDERS EQUITY			
PREFERRED STOCK.			
5% CUMMULATIVE PREFERRED PAR VALUE $100			
AUTHORIZED 30,000 SHARES			
OUTSTANDING 30,000 SHARES		$ 3,000,000.00	$ 3,000,000.00
COMMON STOCK			
AUTHORIZED 5,000,000 SHARES			
OUTSTANDING 3,779,026 SHARES		3,779,826.00	3,059,024.00
CAPITAL SURPLUS		8,951,390.32	3,309,663.42
SURPLUS		4,121,151.33	2,563,574.[illegible]
		$19,852,367.65	$11,[illegible]
LESS, TREASURY STOCK			
5% CUMULATIVE PREFERRED 10,548 SHARES	$1,054,800.00		
COMMON STOCK 50,600 SHARES	70,039.89	1,124,839.89	1,10[illegible]
TOTAL STOCKHOLDERS EQUITY		$18,727,527.76	$10,[illegible]
TOTAL LIABILITIES & STOCKHOLDERS EQUITY		$56,866,513.06	$45,258,501.67

A 3673

TOPPER CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE PERIOD JANUARY 1 TO SEPTEMBER 30, 1971

	MONTH OF SEPTEMBER 1971	MONTH OF SEPTEMBER 1970	YEAR-TO-DATE 1971	YEAR-TO-DATE 1970
INCOME				
NET SALES	$10,399,142.15	$6,724,820.01	$37,778,689.44	$34,785,057.57
TOTAL INCOME	10,399,142.15	6,724,820.01	37,778,689.44	34,785,057.57
COST AND EXPENSES				
COST OF SALES	4,030,705.61	3,760,089.31	20,201,795.12	18,430,612.24
AMORTIZATION OF MOLDS AND DIES				
APPRAISAL	109,850.53	107,526.00	988,654.77	988,424.00
OTHER	367,472.57	225,954.08	2,115,454.11	2,191,[illegible].24
	477,323.10	333,480.08	3,104,108.88	3,1[illegible].24
DEPRECIATION				
APPRAISAL	36,790.21	48,372.41	400,254.67	320,595.36
OTHER	48,146.00	31,389.14	283,187.75	194,71[illegible]
	84,936.21	79,761.55	683,442.42	515,[illegible]
OPERATING EXPENSES				
SELLING AND ADVERTISING EXPENSES	1,847,067.99	1,200,822.01	6,939,716.00	6,846,142.03
ADMINISTRATION AND GENERAL EXPENSES	179,563.57	212,403.16	1,367,294.48	1,159,270.11
ENGINEERING, RESEARCH AND DEVELOPMENT EXPENSES	103,506.81	83,277.36	781,111.31	753,935.47
	2,130,138.37	1,496,502.53	9,088,121.79	8,759,347.61
INTEREST EXPENSE				
BANK	170,177.97	139,611.52	1,302,489.44	1,085,893.85
OTHER	37,527.77		368,870.28	547,110.[illegible]
	207,705.74	139,611.52	1,671,359.72	1,634,[illegible]
DEBT DISCOUNT - AMORTIZATION	21,706.22	24,591.43	344,826.08	358,723.36
OTHER DEDUCTIONS	28,822.03-	3,716.12	234,500.69-	16,312.87
FRANCHISE TAXES	70,129.35	41,695.00	88,601.96	41,695.00
TOTAL COST AND EXPENSES	7,901,822.57	5,889,831.54	34,947,755.28	33,144,165.37
NET INCOME BEFORE FEDERAL INCOME TAXES	2,497,319.58	834,988.47	2,830,934.16	1,641,852.20
PROVISION FOR FEDERAL INCOME TAXES	1,198,787.81	553,280.37	1,358,922.80	807,000.00
LOSS FROM DISCONTINUED TOILETRIES OPERATIONS		375,602.31		666,775.73
NET INCOME/LOSS	$ 1,298,531.77	$ 93,894.21-	$ 1,472,011.36	$ 168,076.47

A 3674

[illegible] CORPORATION

ADDITIONAL INFORMATION TO BE SUBMITTED TO NOTE HOLDERS ON A QUARTERLY BASIS
AS OF SEPTEMBER 30, 1971

(1) Calculation showing consolidated net tangible assets are at least 200% of consolidated funded debt.

Consolidated total assets		$56,866,513.06
Less:		
Write-ups of assets above cost, subsequent to January 1, 1971		-
Intangible assets		-
Deferred charges:		
Finance charges	$466,179.83	
Educational Toys, Inc.	328,008.51	
Miscellaneous	25,000.00	819,188.34
Restricted investments		-
		56,047,324.72
Total liabilities (less funded debt)		24,066,558.90
Consolidated net tangible assets		31,980,765.82
Funded debt multiplied by 200%		24,653,735.20
Excess of consolidated net tangible assets over 200% of consolidated funded debt		$ 7,327,030.62

(2) Calculation showing consolidated working capital to be at least $20,000,000 and current ratio to be at least 150%.

Total consolidated current assets	$50,607,501.95
Total consolidated current liabilities	24,066,558.90
	$26,540,943.05
Current ratio	2.1:1

(3) Calculation showing consolidated net worth to be at least $15,000,000.

Consolidated net tangible assets	$31,980,765.82
Consolidated funded debt	12,326,867.60
Total consolidated net worth	$44,307,633.42

A 3675

City Bank
Ex. 35
8/15/75 EN

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE February 23, 1971

FROM A. J. Lusk, A.V.P. TO Contract File

SUBJECT: Topper Corporation

E. Waldman, D. Holzman, V.P.s and I were guests of Topper for the Toy Fair.

To facilitate new offering of Topper stock, they will probably discontinue the Young and Free operation. This will mean an additional loss for liquidating expenses and will make the net for 1970 about $250M vs. the $600M previously projected. P & L figures will be shown separately for the toy operation to highlight the cash flow of $4.7MM. Mid May is the target date for the $5MM of public money and they are also discussing $5MM ten year term money from an insurance company after the public offering.

The Dawn doll and accessories is the most important part of the new line along with a new talking doll "Smartypants". Johnny Lightning will be off somewhat due to excess car inventory in the market, but the additional business in dolls should take up the slack.

There is expected to be some redating of current receivables which Jack Rose will detail to us as soon as information is abailable.

The final audited figures should be ready within a few weeks.

A. J. Lusk
A. J. Lusk
Assistant Vice President

P.S. Present from Topper were
Henry Orenstein
Jack Rose
David Downs
Julie Schwartz
Morris Orenstein, and
Gordon Johnson of Dancer Fitzgerald

A 3676

Form C-114.A-6
Misc Foreign

1

State of New Jersey

Department of State

DE LUXE TOPPER CORPORATION
(Delaware Corporation)

I, the Secretary of State of the State of New Jersey, DO HEREBY CERTIFY, that the records of this office show that the above-named Foreign Corporation was authorized to transact business in this State on the 28th day of September, A.D. 1966 and said corporation changed its corporate name to TOPPER CORPORATION on December 26, 1968 and said authorization is still in force and effect insofar as the records of this office show.

I FURTHER CERTIFY, at the time of the issuance of this certificate, Annual Reports are current.

I FURTHER CERTIFY, that the location of the principal office is 107 Trumbull Street, Elizabeth, New Jersey 07206 and the registered agent is Henry Orenstein.

IN TESTIMONY WHEREOF, I have
hereunto set my hand and
affixed my Official Seal at
Trenton, this 16th day of
September A.D. 1971.

been given as aforesaid, the principal amount to be prepaid, together with interest thereon to the date of prepayment, and together with any applicable premium thereon, shall on the date designated in such notice become due and payable. From and after such date, unless the Company shall default in payment of such principal amount when so due and payable and interest as aforesaid, interest on such principal amount shall cease to accrue.

11.5. *Allocation of Payments.* In the case of all prepayments of less than all of the Notes at the time outstanding, the principal amount to be prepaid shall be allocated (in units of $1,000 or multiples thereof) among the holders of all Notes at the time outstanding, in proportion, as nearly as practicable, to the respective aggregate unpaid principal amounts of the Notes (not theretofore called for prepayment) then held by each, respectively, with adjustments, to the extent practicable, to equalize for any prior unequal prepayments.

11.6. *Notation of Payment, etc.* Except as otherwise provided in section 28 hereof, upon any partial prepayment of any Note, such Note shall be, at the option of the holder thereof, either (*a*) surrendered to the Company in exchange for a new Note in a principal amount equal to the principal amount remaining unpaid on the Note surrendered, and otherwise having the same terms and provisions as the Note surrendered, or (*b*) made available to the Company at the place of payment for notation thereon of the portion of the principal so prepaid.

11.7. *No Reissue of Prepaid or Surrendered Notes.* In the case of the prepayment in full of any Note, such Note shall be cancelled by the Company and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

12. SUBORDINATION TO SENIOR DEBT. Anything herein or in any Note to the contrary notwithstanding, the Indebtedness evidenced by the Notes shall be subordinate and junior to the extent set forth in the following paragraphs (*a*) to (*c*), inclusive, to all Indebtedness of the Company for borrowed money not prohibited by section hereof (except for any Indebtedness which, in the instrument evidencing the same or the agreement relating thereto, is expressly deemed not to constitute Senior Debt for purposes of the Notes) and created or incurred concurrently with or after the date hereof but prior to the maturity of the Notes by lapse of time, acceleration or otherwise. Such indebtedness of the Company to which the Notes are subordinate or junior is sometimes herein referred to as "Senior Debt".

whether presently existing or

(*a*) In either of the following cases, namely:

(*i*) upon the maturity of any Senior Debt by lapse of time, acceleration or otherwise, or

(*ii*) during the continuance of any default by the Company in the payment of principal of or interest on any Senior Debt,

all principal of and premium, if any, and interest on all such Senior Debt shall first be paid in full, or payment thereof in cash shall have been provided for, before any payment on account of principal or interest is made upon the Notes.

(*b*) In the event of any insolvency, bankruptcy, liquidation, reorganization or other similar proceedings, or any receivership proceedings in connection therewith, relative to the Company or its creditors or its property, and in the event of any proceedings for voluntary liquidation, dissolution or other winding up of the Company, whether or not involving insolvency or bankruptcy proceedings, then all principal and interest on all Senior Debt shall first be paid in full, or payment thereof in cash shall have been provided for, before any payment on account of principal or interest is made upon the Notes.

(*c*) In any of the proceedings referred to in paragraph (*b*) above, any payment or distribution of any kind or character, whether in cash, property, stock or obligations which may be payable or deliverable in respect of the Notes shall be paid or delivered directly to the holders of Senior Debt for application in payment thereof, unless and until all principal of and premium, if any, and interest on all Senior Debt shall have been paid in full, or payment thereof in cash shall have been provided for, *provided* that (*i*) in the event that payment or delivery of such cash, property, stock or obligations to the holder of any Note is authorized by an order or decree giving effect, and stating in such order or decree that effect is given, to the subordination of the Notes to Senior Debt, and made by a court of competent jurisdiction in a reorganization proceeding under any applicable bankruptcy or reorganization law, no payment or delivery of such cash, property, stock or obligations payable or deliverable with respect to the Notes shall be made to the holders of Senior Debt; and (*ii*) no such delivery shall be made to holders of Senior Debt of stock or obligations which are issued pursuant to reorganization proceedings or dissolution or liquidation proceedings, or upon any merger, consolidation, sale, lease, transfer or other disposal not prohibited by the provisions of this Agreement, by the Company, as reorganized, or by the corporation succeeding to the Company or acquiring its property and assets, if such stock or obligations are subordinate and junior at least to the extent provided in (and governed by terms substantially identical to the provisions of) this section 12 to the payment of all Senior Debt then outstanding and to the payment of any stock or obligations which are issued in exchange or substitution for any Senior Debt then outstanding.

Subject to the prior payment in full of all Senior Debt, the holders of the Notes shall, to the extent of any payment or distribution to the holders of Senior Debt which would, except for the provisions of this section 12 have been made to the holders of the Notes, be subrogated to the rights of the holders of Senior Debt to receive payments or distributions of assets of the Company applicable to the Senior Debt until the Notes shall be paid in full and no such payments or distributions to the Senior Debt shall, as between the Company, its creditors, other than the holders of Senior Debt, and the holders of the Notes, be deemed to be a payment by the Company to or on account of the Notes. It is understood that the provisions of this section 12 are and are intended solely for the purpose of defining the relative rights of the holders of the Notes, on the one hand, and the holders of Senior Debt, on the other hand, and nothing contained herein is intended to or shall impair, as between the Company, its creditors, other than the holders of Senior Debt, and the holders of the Notes, the obligation of the Company, which is unconditional and absolute, to pay to the holders of the Notes the principal of (and premium, if any) and interest on the Notes as and when the same shall become due and payable in accordance with their terms and without giving effect to this section 12, or to affect the relative rights of the holders of the Notes and creditors of the Company other than the holders of Senior Debt, nor shall anything herein prevent the holders of the Notes from exercising all remedies otherwise permitted by applicable law upon default of the Notes, subject to the rights, if any, under this section 12 of the holders of Senior Debt in respect of cash, property or securities of the Company receivable or received upon the exercise of any such remedy.

13. CONVERSION. The Notes shall be convertible into shares of Common Stock of the Company on the following terms and conditions:

13. CONVERSION. The Notes shall be convertible into shares of Common Stock of the Company any Note or Notes shall have the right, at such holder's option, at any time or from time to time prior to the payment of such Note or Notes (except that, in respect of any Note as to which the Company shall have given the notice of prepayment required by subsection 11.5 hereof, such right shall terminate at the close of business on the day prior to the day fixed in such notice for prepayment, unless the Company shall default in the payment thereof), to convert such Note or Notes, or any portion (in multiples of $1,000) of the principal amount thereof, into such number calculated to the nearest 1/100th of a share, 5/1000ths of a share being considered as nearer to the next higher 1/100th of a share, of

A 3679

Citibank Ex 36 SP
em 9/22/75

280 PARK AVENUE
NEW YORK, N.Y. 10017
(212) 732-1040

20, PLACE VENDÔME PARIS 1er
TELEPHONE 742 17 99

88, AVENUE LOUISE, BRUSSELS 5
TELEPHONE 38 00 70

WHITE & CASE
14 WALL STREET
NEW YORK, N. Y. 10005
(212) 732-1040

CABLES — TELEX
WHITECASE, NEW YORK — 62820
WHITECASE, PARIS — 22242
WHITECASE, BRUSSELS — 23100

JCP:RKM

September 20, 1971

re Topper Corporation

Mr. Edward Waldman
Vice President
First National City Bank
399 Park Avenue
New York, New York 10022

Dear Mr. Waldman:

To complete your files, enclosed herewith is a copy of a Certificate of the Secretary of State of the State of New Jersey as to the good standing in said State of Topper Corporation.

Also enclosed herewith is a copy of the subordination provisions of the proposed Purchase Agreement in connection with the Private Debenture Placement. I would appreciate your confirming in writing that such provisions are satisfactory to you.

Sincerely,

John Picconi

Enclosure

A 3080

State of New Jersey

Department of State

DE LUXE TOPPER CORPORATION
(Delaware Corporation)

I, the Secretary of State of the State of New Jersey, DO HEREBY CERTIFY, that the records of this office show that the above-named Foreign Corporation was authorized to transact business in this State on the 28th day of September, A.D. 1966 and said corporation changed its corporate name to TOPPER CORPORATION on December 26, 1968 and said authorization is still in force and effect insofar as the records of this office show.

I FURTHER CERTIFY, at the time of the issuance of this certificate, Annual Reports are current.

I FURTHER CERTIFY, that the location of the principal office is 107 Trumbull Street, Elizabeth, New Jersey 07206 and the registered agent is Henry Orenstein.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my Official Seal at Trenton, this 16th day of September A.D. [illegible].

been given as aforesaid, the principal amount to be prepaid, together with interest thereon to the date of prepayment, and together with any applicable premium thereon, shall on the date designated in such notice become due and payable. From and after such date, unless the Company shall default in payment of such principal amount when so due and payable and interest as aforesaid, interest on such principal amount shall cease to accrue.

11.5. *Allocation of Payments.* In the case of all prepayments of less than all of the Notes at the time outstanding, the principal amount to be prepaid shall be allocated (in units of $1,000 or multiples thereof) among the holders of all Notes at the time outstanding, in proportion, as nearly as practicable, to the respective aggregate unpaid principal amounts of the Notes (not theretofore called for prepayment) then held by each, respectively, with adjustments, to the extent practicable, to equalize for any prior unequal prepayments.

11.6. *Notation of Payment, etc.* Except as otherwise provided in section 28 hereof, upon any partial prepayment of any Note, such Note shall be, at the option of the holder thereof, either (*a*) surrendered to the Company in exchange for a new Note in a principal amount equal to the principal amount remaining unpaid on the Note surrendered, and otherwise having the same terms and provisions Note surrendered, or (*b*) made available to the Company at the place of payment for notation the of the portion of the principal so prepaid.

11.7. *No Reissue of Prepaid or Surrendered Notes.* In the case of the prepayment in full of any Note, such Note shall be cancelled by the Company and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

12. SUBORDINATION TO SENIOR DEBT. Anything herein or in any Note to the contrary notwithstanding, the Indebtedness evidenced by the Notes shall be subordinate and junior to the extent set forth in the following paragraphs (*a*) to (*c*), inclusive, to all Indebtedness of the Company for borrowed money not prohibited by section hereof (except for any Indebtedness which, in the instrument evidencing the same or the agreement relating thereto, is expressly deemed not to constitute Senior Debt for purposes of the Notes) and created or incurred concurrently with or after the date hereof but prior to the maturity of the Notes by lapse of time, acceleration or otherwise. Such indebtedness of the Company to which the Notes are subordinate or junior is sometimes herein referred to as "Senior Debt".

whether presently outstanding or

(*a*) In either of the following cases, namely:

(*i*) upon the maturity of any Senior Debt by lapse of time, acceleration or otherwise, or

(*ii*) during the continuance of any default by the Company in the payment of principal of or interest on any Senior Debt,

all principal of and premium, if any, and interest on all such Senior Debt shall first be paid in full, or payment thereof in cash shall have been provided for, before any payment on account of principal or interest is made upon the Notes.

(*b*) In the event of any insolvency, bankruptcy, liquidation, reorganization or other similar proceedings, or any receivership proceedings in connection therewith, relative to the Company or its creditors or its property, and in the event of any proceedings for voluntary liquidation, dissolution or other winding up of the Company, whether or not involving insolvency or bankruptcy proceedings, then all principal and interest on all Senior Debt shall first be paid in full, or payment thereof in cash shall have been provided for, before any payment on account of principal or interest is made upon the Notes.

(*c*) In any of the proceedings referred to in paragraph (*b*) above, any payment or distribution of any kind or character, whether in cash, property, stock or obligations which may be payable or deliverable in respect of the Notes shall be paid or delivered directly to the holders of Senior Debt for application in payment thereof, unless and until all principal of and premium, if any, and interest on all Senior Debt shall have been paid in full, or payment thereof in cash shall have been provided for, *provided* that (i) in the event that payment or delivery of such cash, property, stock or obligations to the holder of any Note is authorized by an order or decree giving effect, and stating in such order or decree that effect is given, to the subordination of the Notes to Senior Debt, and made by a court of competent jurisdiction in a reorganization proceeding under any applicable bankruptcy or reorganization law, no payment or delivery of such cash, property, stock or obligations payable or deliverable with respect to the Notes shall be made to the holders of Senior Debt; and (*ii*) no such delivery shall be made to holders of Senior Debt of stock or obligations which are issued pursuant to reorganization proceedings or dissolution or liquidation proceedings, or upon any merger, consolidation, sale, lease, transfer or other disposal not prohibited by the provisions of this Agreement, by the Company, as reorganized, or by the corporation succeeding to the Com- pany or acquiring its property and assets, if such stock or obligations are subordinate and junior at least to the extent provided in (and governed by terms substantially identical to the provisions of) this section 12 to the payment of all Senior Debt then outstanding and to the payment of any stock or obligations which are issued in exchange or substitution for any Senior Debt then out- standing.

Subject to the prior payment in full of all Senior Debt, the holders of the Notes shall, to the extent of any payment or distribution to the holders of Senior Debt which would, except for the provisions of this section 12 have been made to the holders of the Notes, be subrogated to the rights of the holders of Senior Debt to receive payments or distributions of assets of the Company applicable to the Senior Debt until the Notes shall be paid in full and no such payments or distributions to the Senior Debt shall, as between the Company, its creditors, other than the holders of Senior Debt, and the holders of the Notes, be deemed to be a payment by the Company to or on account of the Notes. It is understood that the pro- visions of this section 12 are and are intended solely for the purpose of defining the relative rights of the holders of the Notes, on the one hand, and the holders of Senior Debt, on the other hand, and nothing contained herein is intended to or shall impair, as between the Company, its creditors, other than the holders of Senior Debt, and the holders of the Notes, the obligation of the Company, which is uncondi- tional and absolute, to pay to the holders of the Notes the principal of (and premium, if any) and in- terest on the Notes as and when the same shall become due and payable in accordance with their terms and without giving effect to this section 12, or to affect the relative rights of the holders of the Notes and creditors of the Company other than the holders of Senior Debt, nor shall anything herein prevent the holders of the Notes from exercising all remedies otherwise permitted by applicable law upon default of the Notes, subject to the rights, if any, under this section 12 of the holders of Senior Debt in respect of cash, property or securities of the Company receivable or received upon the exercise of any such remedy.

13. CONVERSION. The Notes shall be convertible into shares of Common Stock of the Company on the following terms and conditions:

13 CONVERSION. The Notes shall be convertible into shares of Common Stock of the Company any Note or Notes shall have the right, at such holder's option, at any time or from time to time prior to the payment of such Note or Notes (except that, in respect of any Note as to which the Company shall have given the notice of prepayment required by subsection 11.5 hereof, such right shall terminate at the close of business on the day prior to the day fixed in such notice for prepayment, unless the Company shall default in the payment thereof), to convert such Note or Notes, or any portion (in multiples of $1,000) of the principal amount thereof, into such number calculated to the nearest 1/100th of a share, 5/1000ths of a share being considered as nearer to the next higher 1/100th of a share, of

A 3683

Citibank
Ex 37 ID
am 9/22/75
Consolidated

September 22, 1971

Mr. John Provine
White & Case
14 Wall Street
New York, N.Y. 10005

Re: Topper Corporation

Dear Mr. Provine:

This will acknowledge your letter of September 20th enclosing copy of the Certificate of the Secretary of State of New Jersey.

With respect to the provisions of the subordination agreement which you also enclosed the same has been reviewed and the provisions therein are satisfactory to us.

Very truly yours,

EW:SS

1872

13

JRB

PLEASE NOTE WHETHER NAME, BUSINESS AND STREET ADDRESS CORRESPOND WITH YOUR INQUIRY

Dun & Bradstreet® REPORT

SPECIAL NOTICE

SIC	D-U-N-S	© DUN & BRADSTREET, INC.	RATING
39x41	00-216-8441	A SN 37 SEP 3 1971	
39 42	TOPPER CORP (DELAWARE CORP)	MFR TOYS & DOLLS	--

107 TRUMBULL ST
ELIZABETH N J 07206
TEL 201 351-4400

9/17/71

SUIT

Public records show a suit filed against subject in Union County in Aug 1971 for $1,272. Plaintiff stated as Dumont Inc., attorney for plaintiff stated as B Horwitz. Docket number 138195.

9-3 (64)

Cozy Park exhibit no 38
9-30-75 D.A.C.

A 3661

11:35

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CBX 3

A 3685

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SIC	D-U-N-S	DUN & BRADSTREET, INC.	STARTED	RATING
39x41	00-216-8441	A- AD 37 JAN 18 1971		
39 42	TOPPER CORP (DELAWARE CORP)	MFR TOYS & DOLLS	1966	--

107 TRUMBULL ST
ELIZABETH N J 07206
TEL 201 351-4400

HENRY ORENSTEIN, PRES

SUMMARY

PAYMENTS	GEN SLOW 30 120 ✓
SALES	$53,722,724
WORTH	$7,893,952
EMPLOYS	1,000 to 1,200
RECORD	CLEAR
CONDITION	UNBALANCED
TREND	DOWN

PAYMENTS	HC	OWE	P DUE	TERMS	DEC 28 1970	SOLD
	5000			Spec	Ppt	
	8000	3000	1000	1 10 30	Slow 30	Over 3 yrs
	5000	4500	4000	1 10 30	Slow 60	2 yrs
	50000	35000	35000	30	Slow 60 75	
	400000	267000	130000	1 10 30	Slow 30 90	Over 3 yrs; good acct
	497000	269000	254000	30	Slow 90	
	30600	30500	18800	30	Slow 90	1 yr to 11-70
	50000	31000	31000	1 10 30	Slow 120	2 yrs

Management did not comment on slowness.

HIGHLIGHTS	Dec 31 1969	June 30 1970 (Interim)
Current Assets	$26,380,659	$ 28,267,603
Current Liabilities	23,615,769	32,818,688
Working Capital	2,764,890	4,551,085 (A)
Deferred Debt	4,600,000	121,126
Worth	7,893,952	8,467,590
Sales	53,722,724	-
Profit	1,282,373	-

This business has been under various control since 1951 with present principals acquiring the business in 1966. Since coming under present management for the 9 months ended Oct 31 1966 the company sustained a loss of $8,621,733. For the 4 months ended Feb 4 1967 a loss of $17,580,200 was suffered. For 11 months ended Dec 31 1967 losses were $582,089.

Because of the losses in order to permit continued operations, the company entered into an arrangement with the seller from which it purchased the toy business whereby the seller agreed to the deferral and eventual forgiveness of the greater part of the debt due to the seller (the balance of the indebtedness has been paid). Arrangements were also made with the company's bank and its advertising agency which included the introduction of junior participations in bank loans and the payment to the advertising agency of its outstanding indebtedness over the first 9 months of 1967.

Management managed to reverse the trend after the years ending Dec 31 1968 and 1969, profits of $506,684 and $1,282,373 were respectively earned.

On June 30 1970 the company made a public offering of 440,000 shares of its Common Stock. The proceeds from the sale of stock which was approximately

(CONTINUED)

THIS REPORT MAY NOT BE REPRODUCED IN WHOLE OR IN PART IN ANY FORM OR MANNER WHATEVER.

A 3666

HIGHLIGHTS (Cont'd) $1,700,000 after deducting expenses was used to reduce a $2,000,000 bank loan which was negotiated under a financing agreement with the bank to enable the subject to retire its 8% notes of $2,079,000 which were due June 2 1970. The proceeds of the sale of stock was then paid to the bank in accordance with agreement.

Statement of June 30 1970, 6 months interim statement, reflects the financial condition of the company after its public offering. That statement reflects an unbalanced financial condition with a deficit working capital position existing and debt heavy in relation to worth.

The operation of this company is highly seasonal with at least 70% of volume transacted during the second half of the year. Peak season starts around June of each year. For the first half of the year it isnot unusual for this company to suffer losses. The company's production remains steady with a resulting build up in inventory, often on seasonal dating basis, and a acccunts receivable become steadily larger. To support this type of activity the company finances its receivables with an outside financing institution, running to substantial seven figure proportions. Despite this financing of receivables, sufficient funds have not beenmade available to meet suppliers payments within normal 30 day terms. Payments are retired in a generally slow manner.

During October 1969 the company formed a wholly owned subsidiary known as Yourth Care, Inc., located at this location. That corporation is engaged in the marketing of a line of toiletries under the name "Young N'Free." These toiletries include shampoos, deodorants, soap, bubble baths, body powder, lotions and light fragrances.

CURRENT On Dec 30 1970 David L. Downs, Executive Vice President of Corporate Development, was interviewed. Downs made reference to statement of June 30 1970 as being the latest available. He stated the company anticipates a loss for the year 1970 on the introduction of its new lineof toiletries, the major portion of which has been reflected in the 9 months ended Sept 30 1970, however, expects overall operations for the year ending Dec 31 1970 to yield modest profits.

Operating results for the first 9 months of the current year ending Sept 30 1970 included sales of $36,853,964 and a profit of $168,076. It should be noted that in 1970 subject corporation introduced a line of toiletries and now operates two divisions; Toys & Dolls; and Toiletries. Sales for the toy division for the first 9 months of the current year were $34,785,957 and sales for the toiletries division were $2,068,007. The toy division for the 9 months ended Sept 30 1970 had a net income of $834,852 which was offset by a $666,776 loss suffered by the toiletries division resulting in a net income for the 9 months of $168,076.

Banking
The company uses one local and two New York City banks. Locally balances are reported averaging in substantial proportions. The bank participates with other banks in granting sizeable secured loans. Security being receivables, inventory and fixed assets.

At both New York City banks balances termed as averaging in satisfactory proportions; both banks participating in sizeable secured loans.
1-19-71 (512 46) A3-3
1-21-71 (18)

TOPPER CORP (DELAWARE CORP)
ELIZABETH N J

A CD Page 1
1-18-71

FINANCE The following balance sheets were prepared from financial statements contained in the Prospectus of Aug 21 1970.

FINANCIAL STATEMENTS

	Fiscal Dec 31 1969	Interim June 30 1970
CASH	$ 2,508,021	$ 880,196
MARKETABLE SECURITIES		
NOTES RECEIVABLE		
ACCOUNTS RECEIVABLE	17,306,710	17,606,294
INVENTORY	6,565,928	9,781,113
OTHER CURRENT ASSETS		
TOTAL CURRENT ASSETS	26,380,659	28,267,603
FIXED ASSETS	8,510,680	9,325,295
INVESTMENTS		
Prepaid	660,375	4,064,333
Deferred Charges	779,932	750,173
OTHER ASSETS		
TOTAL	36,331,646	42,407,404
DUE BANKS	14,229,737	17,338,206
NOTES PAYABLE	2,079,000	5,200,000
ACCOUNTS PAYABLE	5,480,885	9,204,690
ACCRUALS	1,826,147	1,075,792
TAXES (Except Federal Income)		
FEDERAL INCOME TAXES		
LONG TERM LIABILITIES (Current)		
OTHER CURRENT LIABILITIES		
TOTAL CURRENT LIABILITIES	23,615,769	32,818,688
LONG TERM LIABILITIES	4,600,000	121,126
RESERVES		
PREFERRED STOCK	3,000,000	3,000,000
COMMON STOCK	2,558,525	3,069,824
CAPITAL SURPLUS	1,214,379	3,153,097
~~RETAINED EARNINGS~~ EARNED SURPLUS	2,494,448	1,441,710
TREASURY STOCK	(1,373,400)	(1,197,041)
NET WORTH (Prop or Part)		
TOTAL	36,331,646	42,407,404
NET WORKING CAPITAL	2,764,890	4,551,085 (D)
CURRENT RATIO		
TANGIBLE NET WORTH	7,893,952	8,467,590

IF USED: D - DEFICIT.

Accounts receivable are shown less allowance for uncollectible accounts of $569,556 at Dec 31 1969 and $709,591 at June 30 1970. Fixed assets are shown net less accumulated depreciation of $7,719,129 at Dec 31 1969 and $10,148,671 at June 30 1970.

(CONTINUED)

A 3683

FINANCE (Cont'd)

	INCOME STATEMENT Fiscal Dec 31 1969
Net Sales	$53,722,724
Cost of Goods Sold	35,755,020
Expenses	5,007,149
Other Expenses	8,853,986
Final Net Income	$ 1,282,373

SUPPLEMENTAL DATA

Cash including $2,440,000 at Dec 31 1969 and $750,000 at June 30 1970 is held as collateral for bank loans.

Public records show a Financing Statement filed July 30 1970, Borrower Topper Corp., Lender Manufacturers Hanover Trust Company, 4 New York Plaza, New York, N. Y. Property covered; dolls, doll accessories, dolls clothing, documents and goods, File #87,160.

HISTORY Started: Mar 12 1951 as De Luxe Premium Corp., by Marrius and Henry Orenstein and Herman Rosten. 1955, Rosten sold his interest. February 1960 entire stock of De Luxe Premium Corp. and affiliates was acquired by Philadelphia & Reading Corp. for $2,300,000 cash plus 50% of the profits in excess of certain minimums from Feb 1 1960 to Dec 31 1969. During October 1966, the subject business was acquired from Philadelphia & Reading Corporation by this corporation for approximately $49,000,000.

Incorporated: Under Delaware laws in 1966 as De Luxe Topper Corp. During March 1969 an amendment was filed changing the name to Topper Corporation.

OPERATION Products: Manufactures toys consisting of miniature diecast facing cars and sets known as "Johnnie Lightning" and a broad line of toy appliances for girls known as "Suzy Homemaker" (90%) and dolls (10%).

Distribution: To national retail chains and franchise distributors.
Territory: U. S.
Accounts: 600
Terms: Net 30 and dating basis
Employees: 1,000 to 1,200
Employees go as high as 5,000 during peak seasons.
Seasons: 70% of volume transacted the last 6 months of each year.

Facilities: At Elizabeth, N. J. occupies 1,000,000 square feet in a group of one, two and three story brick buildings located in an industrial area. Premises are orderly. Maintains showroom facilities at 1107 Broadway, New York City.

SUBSIDIARIES In October 1969 the company formed a subsidiary known as Youth Care, Inc., located at this address. That corporation is engaged in marketing a line of toiletries under the name Young 'N Free. The sales of this company represent less than 10% of the company's consolidated volume.

(CONTINUED)

TOPPER CORP (DELAWARE CORP)
ELIZABETH N J

A CD Page 3
1-13-71

HENRY ORENSTEIN, PRES
ANTHONY P. FRANCIS, V PRES
RONALD W. AARONT, V PRES
JOSEPH L. BONANNO, SR V PRES (ENG)
DAVID DOWNS, EXEC V PRES (CORP DEV)
JACK ROSE, SR V PRES (FINANCE)
MELVIN LEVINE, V PRES (MFG)

MARRIUS ORENSTEIN, V PRES
ALBERT HAMMER, EXEC V PRES
SID TEPPER, SR V PRES (ENG)
PETER CASSATA, SR V PRES (MFG)
MASON BENSON, V PRES (SALES)
JULES SCHWARTZ, TREAS
FREDERICK PIERCE, V PRES (SALES)

DIRECTORS: Henry Orenstein, Marrius Orenstein, Grover Johnson, Albert Hammer, David Downs, Peter Bronfman, Sanford Weill, Roger Berlind, Paul Weir.

MANAGEMENT BACKGROUND

HENRY ORENSTEIN, born Poland, 1923, married. Came to the U. S. in 1947 and until September 1948 employed in the grocery field. 1948-1949 operated a grocery store at Newark. June 1 1949, purchased self service grocery store at Newark. 1950, sold that store and became a salesman for Libby, Mc Neil & Libby. Resigned 1951 to start De Luxe Premium Corp.

FRANCIS, born 1923; during his earlier years was employed in an executive capacity by Libby, Mc Neil & Libby, Inc. He has been associated with this corporation for the past 15 years. Became an officer in 1970.

MARRIUS ORENSTEIN, born Russia, 1897, married. 1926-1927 operated retail dry goods business at Brooklyn, N. Y. 1927 formed Fair Deal Novelty Co., New York City, operated mail order business which discontinued with all bills paid. 1941 with another Marrius Orenstein acquired Trade Laboratories, Inc., Newark. Dissolved in 1956 with all debts paid in full. 1951, acquired De Luxe Premium Corp.

BONANNO, born 1909; for over 30 years was Vice President and Chief Engineer of Lionel Corporation, Hillside, N. J. He has been associated with this company since 1964.

HAMMER, born 1930; has been associated with this corporation since 1952.

DOWNS, born 1929, married. He is Vice President of Corporate Development. Vice President of Manufacturers Hanover Trust for 15 years prior to coming here in May 1969.

TEPPER, born 1926, married; has been associated with this company for the past 2 years; previously with General Instrument Company, in charge of Engineering Division.

ROSE is an attorney accountant by profession. He was latterly employed in an executive capacity by Lionel Corporation, Hillside, N. J. He has been with this company since October 1966.

CASSATA, born 1913, married; has been associated here for the past 5 years.

LEVINE, born 1929, married; associated here for 5 years.

BENSON, born 1924, married; employed here for 5 years.

PIERCE, born 1936, married; employed here for 5 years.

SCHWARTZ, born 1934, married; accounting manager for Lionel Corporation for 2 years prior to coming here in 1966.

AARONT was employed by Vornado, Inc. from 1965 was Assistant Vice President thereof from 1968 until he joined subject in 1970.

(CONTINUED)

TOPPER CORP (DELAWARE CORP)
ELIZABETH N J

MANAGEMENT BACKGROUND

JOHNSON is an attorney at New York City. BRONFMAN is a private investor in Canada. WEILL is Chairman of the Board of Investment Bankers, New York City. BERLIND is with an investment banking firm in New York City. WEIR is Vice President of Northwest Industries.
1-19-71 (512 46) A3-3

A 3691

CBX 39

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SIC	D-U-N-S	© DUN & BRADSTREET, INC.	STARTED	RATING
39x41	00-216-8441	A AD 37 JUL 12 1971		
39 42	TOPPER CORP (DELAWARE CORP)	MFR TOYS & DOLLS	1966	--

H

107 TRUMBULL ST
ELIZABETH N J 07206
TEL 201 351-4400

HENRY ORENSTEIN, PRES

SUMMARY

PAYMENTS	GEN SLOW 30 90
SALES	$63,935,619
EMPLOYS	2500 (2500 HERE)
RECORD	CLEAR
CONDITION	UNBALANCED
TREND	UP

PAYMENTS

HC	OWE	P DUE	TERMS	JUN 11 1971	SOLD
14000	4000	3000	1 10 30	Ppt Slow 30	Over 3 yrs
5000	1000			Ppt Slow 30	
25000			30	Slow 30-60	
25000			30	Slow 30 60	
500000	200000		1 10 30	Slow 30 90	
20000	10000	10000		Slow 60-90	
50000	525			Slow 90	2 yrs to 2-71
400000	150000		1 10 30	Slow	

Management has not commented on slowness.

HIGHLIGHTS

	Dec 31 1969	Jun 30 1970 (Interim)	Dec 31 1970
Current Assets	$26,380,659	$28,267,603	$40,982,963
Current Liabilities	23,615,769	32,818,688	34,651,207
Working Capital	2,764,890	4,551,085	6,331,756
Deferred Debt	4,600,000	121,126	4,343,407
Worth	7,893,952	8,467,590	11,047,663
Sales	53,722,724	-	63,935,619
Profit	1,282,373	-	353,127

This business has been under various control since 1951 with present principals acquiring the business in 1966. For the first 9 months under current management ended Oct 31 1966 the company sustained a loss of $8,621,733. For the four months ended Feb 4 1967 a loss of $17,380,200 was suffered. For 11 months ended Dec 31 1967 losses were $582,089.

Because of the losses in order to permit continued operations, the company entered into an arrangement with the seller from which it purchased the toy business whereby the seller agreed to the deferral and eventual forgiveness of the greater part of the debt due to the seller (the balance of the indebtedness has been paid). Arrangements were also made with the company's banks and its advertising agency which included the introduction of junior participations in bank loans and the payment to the advertising agency of its outstanding indebtedness over the first 9 months of 1967.

For the years ended Dec 31 1968 and 1969 the management managed to reverse the trend with profits of $506,684 and $1,282,373 respectively earned.

(CONTINUED)

City Bank Exhibit 39 9-30-75 D.A.C.

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A 3692

HIGHLIGHTS (Cont'd)

On June 30 1970 the company made a public offering of 440,000 shares of its Common Stock. The proceeds from the sale of stock which was approximately $1,700,000 after deducting expenses was used to reduce a $2,000,000 bank loan which was negotiated under a financing agreement with the bank to enable the subject to retire its 8% notes of $2,079,000 which were due Jun 2 1970. The proceeds of the sale of stock was then paid to the bank in accordance with agreement.

Statement of Jun 30 1970, 6 months interim statement, reflects the financial condition of the company after its public offering.

Latest statement available on subject corporation is that of Dec 31 1970 which although reflecting an improved financial condition still shows the condition of the company to be somewhat unbalanced with a debt to worth ratio of 3 to 1. Although the deficit working capital position has been eliminated the company's working capital is $6,331,756 is moderate in relation to requirements. In addition it should be noted that portions of cash, accounts receivables, inventory and fixed assets are pledged to secure a bank loan of $19,818,478.

As in the past trade survey reflects subject to be retiring its trade obligations in a somewhat slow manner.

The company and certain shareholders of the company on Apr 29 1971 offered to the public through underwriters 750,000 shares of Common Stock at a public offering price of $10.50 per share. The net proceeds received by the company from its sale of shares in such offering were applied to reduction of net borrowings under the company's financing agreement with banks which would be subsequently increased to pay $1,350,000 principal amount of the company's 10% notes due Jun 30 1971.

Prior to the public offering of the 750,000 shares certain stockholders of the company put up for sale 496,600 shares of which 331,400 shares had been sold as of Mar 31 1971. The company received no part of the proceeds from the sale.

The operation of this company is highly seasonal with at least 70% of volume transacted during the second half of the year. Peak season starts around June of each year. For the first half of the year it is not unusual for this company to suffer losses. The company's production remains steady with the resulting buildup in inventory, high point reached during May and June. Later shipments are made, often on a seasonal dating basis, and accounts receivable become steadily larger. To support this type of activity the company finances its receivalbes with an outside financing institution, runing toward a substantial seven figure proportion. Despite the financing receivables, sufficient funds have not been made available to meet suppliers payments on normal 30 day terms. As mentioned previously payments are retired in a generally slow manner.

CHANGES

Subject currently has 2500 employees.

The subsidiary known as Youth Care Inc. formed in Oct 1969 has been discontinued.

A new officer has been added his name Jack Jones, he is Senior Vice President of Marketing and a Director. Jones born around 1923 was Vice President of Matell Toys for 10 years prior to joining subject corporation. Jack Rose, Sr. Vice President (Financing) can now be listed as a director also.

(CONTINUED)

CHANGES (Cont'd)

Joseph L. Bonanno formerly listed as Senior Vice President (Engineering) is no longer an officer. Jules Schwartz formerly listed as Treasurer is now Vice President (Finance) Treasurer. Marrius Orenstein formerly a Vice President is now a Senior Vice President. Ronald W. Aaront should now be listed as Vice President of Marketing and Research.

Subject has formed a new subsidiary that corporation formed under Delaware around May 1971 is known as Educational Toys Inc. The company is engaged in the manufacturing of educational toys under license from Children's Workshop. The company will be manufacturing toys using the name Sesame Street. It will operate from the Elizabeth address.

CURRENT

On July 9, 1971 interviewed David L. Downs, Executive Vice President of corporate development. Downs made reference to statement of Dec 31 1970 as being the latest available.

As is normal for this company for the first quarter of the year losses were sustained. However losses for the first quarter of 1971 were substantially less than at the first quarter of 1970. Sales for the three months ended Mar 31 1971 were $4,900,227 as compared to $1,979,366 in 1970. Losses were $398,016 as compared to $1,039,959 for the first quarter of 1970.

During the interview Downs reported that the company has received approximately $6,300,000 from its public offering of April 1971. He stated that the tangible worth of the company is now approximately $17,000,000.

Banking

The company continues to use one local and two out of state banks. Locally balances are reported averaging in substantial proportions. The bank participates in sizeable secured loans security being receivables. Inventory and fixed assets. Out of state bank reports balances averaging in satisfactory proportions; both banks participate in sizeable secured loans. Relations at all banks satisfactory.
7-23-71 (512 50) A3-2 —

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SIC	D-U-N-S	©DUN & BRADSTREET, INC.		RATING
39x41 39 42	00-216-8441 TOPPER CORP (DELAWARE CORP)	A SN 37 APR 21 1971 MFR TOYS & DOLLS	1966	--

107 TRUMBULL ST
ELIZABETH N J 07206
TEL 201 351-4400

CBX 40

A 3694

SUIT

Public records show a suit filed against subject in Union County in Feb 1971 for $3,000. Plaintiff stated as D M C Corp., attorney for plaintiff stated as S & M Michels. Docket number 130358.
4-21 (64)

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City Bank Exhibit no ~~38~~40
9-30-75 D.A.C.

CDX 42

A 3695

Dun & Bradstreet ANALYTICAL REPORT

©DUN & BRADSTREET, INC.

D-U-N-S			STARTED	RATING
	SUBSTITUTE FOR REPORT OF SAME DATE: CORRECTION IN CONTENT			
39x41	00-216-8441	A AD 37 JULY 9 1970		
39 42	TOPPER CORP (DELAWARE CORP)	MFR TOYS & DOLLS	1966	--

107 TRUMBULL ST
ELIZABETH N J 07206
TEL 201 351-4400

HENRY ORENSTEIN, PRES

SUMMARY

PAYMENTS	DISC SLOW 90
SALES	$53,722,724
WORTH	$7,893,952
EMPLOYS	1000-1200
RECORD	CLEAR
CONDITION	UNBALANCED
TREND	DOWN

PAYMENTS

HC	OWE	P DUE	TERMS	JULY 6 1970	SOLD
10000	14900			Disc	Over 3 yrs
18000				Slow 90	Over 3 yrs to 6-70
6000	5000	2000	1 10 30	Slow	Over 3 yrs
2000	50	50	30	Slow 60	3 yrs to 11-69

Management stated that trade slowness is caused by slow collection of receivables.

HIGHLIGHTS

	Doc 31 1969	Mar 31 1970 (C)
Current Assets	$26,380,659	$16,566,718
Current Liabilities	23,615,769	18,513,987
Working Capital	2,764,890	1,947,269 (A)
Deferred Debt	4,600,000	5,331,072
Worth	7,893,952	5,786,789
Sales	53,722,724	2,102,845
Profit	1,282,373	2,047,162 (B)

(A) Deficit (B) Loss (C) 3 months interim unaudited.

This business has been under various control since 1951 with current principals acquiring the business in 1966. For nine months ended Oct 31 1966 the company sustained a loss of $8,621,733. For the 4 months ended Feb 4 1967 a loss of $17,580,200 was suffered. For 11 months ended Dec 31 1967 losses were $582,089. However, for the year ending Dec 31 1968 a profit of $506,684 was derived and for year ending Dec 31 1969 the company made a profit of $1,282,373.

This operation is highly seasonal with at least 70% of volume transacted during second half of the year. Peak season starts around June of each year. For the first half of the year it is not unusual for this company to suffer losses. For the first three months of operation in the Mar 31 1970 losses of $2,047,163 was suffered.

Because of the losses in order to permit continued operations, the company entered into an arrangement with the seller from which it purchased the toy business whereby the seller agreed to the deferral and eventual forgiveness of the greater part of the debt due to the seller (the balance of the company's indebtedness has been paid). Arrangements were also made with the junior banks and its advertising agency which include the introduction of participations in bank loans and the payment to the advertising agency of its outstanding indebtedness over the first 9 months of 1967.

(CONTINUED)

THIS REPORT MAY NOT BE REPRODUCED IN WHOLE OR IN PART IN ANY FORM OR MANNER WHATEVER.
[illegible]

Craig Brock Exhibit 42
9-30-93
DRC

TOPPER CORP (DELAWARE CORP)
ELIZABETH N J

A AD Page 2
7-9-70

IGHLIGHTS (Cont'd)

The company made a public offering of 440,000 shares of its common stock on June 3 1970. The proceeds from the sale of stock which was approximately $1,700,000 after deducting expenses. This money was used to reduce a $2,000,000 bank loan which was negotiated under a financing agreement with the bank to enable subject to retire its 8% notes of $2,079,000 which were due June 2 1970. The proceeds of the sale of stock was then paid to the bank in accordance with agreement.

Statement of Dec 31 1969 indicates an unbalanced financial condition with debt exceeding worth almost 4 times. Of the $2,508,021 in cash reserves $2,440,000 is being held as collateral for bank loans. As previously mentioned the operation of this business is highly seasonal with at least 70% of volume transacted during the second half of the year. The company's production remains steady with a resulting build up in inventory, high point reached during May and June. Later shipments are made, often on seaonsal dating basis, accounts receivable become steadily larger. To support this type of activity the company finances its receivables with an outside financing institution, running toward a substantial seven figure proportion. Later, usually during November through January most receivables are in, the debt is reduced and the company shows its most liquid condition.

Due to the slow collection of receivables, working capital is restricted and therefore trade slowness exists.

It should also be noted that a significant portion oftoys manufactured by the company are marketed for no longer than a few years and, consequently, the company's business is largely dependent upon its ability to continue to develop new products.

NGES

During Oct 1969 the company formed a wholly owned subsidiary, known as Youth Care, Inc., located at this location. That corporation is engaged in the marketing of a line of toiletries under the name Young 'N Free. These toiletries include shampoos, deodorants, soap, bubble baths, body powder and lotions and light fragrances.

Two new officers have been added, they are Ronald W. Aaront, Vice President of product development and Anthony P. Francis, Vice President.

Aaront was employed by Vornado, Inc., from 1965 and was Assistant Vice President thereof from 1968 until he joined subject in 1970.

Francis previously employed by Topper Corp., becoming an officer in 1970. The directors would now include Henry Orenstein, Marrius Orenstein, Albert N. Hammer, David L. Downs, Roger S. Berlind, Peter Brontman, Glover Johnson, Sanford I. Weill and Paul J. Weir.

Subject's employees now range from 1,000 to 1,200.

ENT

On July 9 1970, David Downs, Executive Vice President was interviewed. Downs stated that through the first six months of the current year losses have been suffered, however, he said this is normal for this type of business because 70% of volume is transacted from the third quarter on. During the first half of the year, the company's production remains steady and inventory is built up with a high point being reached during May and June of each year.

(CONTINUED)

TOPPER CORP (DELAWARE CORP)
ELIZABETH N J

A AD Page 3
7-9-70

CURRENT (Cont'd)

Downs further stated that the $2,079,000 in notes payable shown in the Dec 31 1969 statement and Mar 31 1970 statement were paid in June of this year. In order to pay these notes subject borrowed $2,000,000 from the bank and used the proceeds of the stock sale to pay bank the $2,000,000 borrowed.

Downs anticipates an increase in volume and profits for the year ending Dec 31 1970.

Banking
Account is maintained at an out of state depository where balances average in substantial proportions. Bank comment participation with outside finance institute reports granting secured loans in large proportions with large proportions currently outstanding. Relations have been satisfactory.
7-17-70 (512 47)
8-3-70 (14)

CBX43
43

DELUXE READING A 3698 CORP.

MISC. SHIPPING ORDER

ELIZABETH, NEW JERSEY
Telephone: 351-4400

№ 109614

SHIP TO:
[illegible] Ellis
Commercial, Industrial &
[illegible]
[illegible]
The [illegible]

SHIP FROM:
[illegible] Corporation
[illegible]
[illegible]

DATE SHIPPED	ORDER NO.	SHIPPED VIA	COLLECT	PREPAID	NO. CTNS.	REQUESTED BY

NO. CTNS.	QUAN. PER CTN.	TOTAL QUANTITY	DESCRIPTION AND PART NUMBER	QUANTITY SHIPPED
			ACCTS. REC. TRIAL BALANCE BOOK	

INVOICE NO.

RC-18-00-02

Authorized Signature

Shipping Instructions:

City Bank exhibit no 43
9-30-75
D.A.C.

PACKING LIST

A 3699

[illegible] CREDIT FILE [illegible]

Topper Corporation executive offices & plant elizabeth, new jersey 07206 tel. 201-35[illegible] 212-22[illegible]

David L. Downs
executive vice president
corporate development

May 28, 1969

First National City Bank
90 Park Avenue
New York, New York

Manufacturers Hanover Trust Company
350 Park Avenue
New York, New York

Dear Sirs:

As you know, you are currently making advances to Topper Corporation (herein called "Topper") pursuant to terms and provisions of a certain Agreement dated October 4, 1966, as amended (the "Bank Agreement"), between you and the undersigned.

We wish to advise you that in the near future Topper proposes to repurchase from Lines Bros. Limited 8,400 shares of Common Stock of Topper for a price of $1 per share and 10,200 shares of 5% Cumulative Preferred Stock of Topper at $100 per share. As part of this transaction, Topper intends to incur indebtedness to others in an amount not to exceed $2,200,000. and to issue not more than 700 shares of its Common Stock.

We hereby request that each of you consent to the above-described transactions and agree that such transactions shall not be deemed prohibited by, or constitute a default under, the Bank Agreement.

Please sign the form on the enclosed counterpart of this letter and return the same to us, whereupon your consent and agreement shall become effective.

Very truly yours,

CBX 47

The foregoing transactions are hereby consented to as of the date first above written.

FIRST NATIONAL CITY BANK
By____________________
MANUFACTURERS HANOVER TRUST COMPANY
By____________________

CBX 47

A 3700 CBX 56

UNITED STATES STEEL AND CARNEGIE PENSION FUND
(A PENNSYLVANIA CORPORATION)

436 SEVENTH AVENUE

PITTSBURGH 19, PA.

November 30, 1950

J. P. Morgan & Co. Incorporated
23 Wall Street
New York, New York

Dear Sirs:

Please open a custodian account in the name of the undersigned and hold in it the securities listed in the attached statement and delivered to you herewith and any other securities which you may hereafter receive for this account.

You are hereby authorized with respect to this custodian account and with respect to the bank account of the undersigned designated as the "1950 Trust Account": [illegible]

1. To cause to be registered and to hold in the name of your nominee all securities at any time in the custodian account requiring registration.

2. To collect and credit to the bank account of the undersigned all income with respect to the property held in the custodian account.

3. To surrender for payment maturing obligations and securities called for redemption and to credit the proceeds received to the bank account of the undersigned.

4. To exchange securities in temporary form for like securities in definitive form.

5. On the basis of properly authenticated duplicate brokers' advices furnished you by the undersigned, to deliver securities sold from this account against your receipt of the proceeds from such sale, which proceeds are to be credited by you to the bank account of the undersigned.

6. On the basis of properly authenticated duplicate brokers' advices furnished you (by the undersigned) to accept securities for this account delivered to you by brokers and to make payment therefor from the bank account of the undersigned against delivery.

[illegible]

56

A 3701

7. To charge the bank account of the undersigned for all expenses and assessments incurred by you or your nominee and for any taxes or other charges required to be paid by you or your nominee in connection with the custodian account. The undersigned agrees to indemnify you or your nominee against liability for all such items and you shall have a lien therefor upon any property in the custodian account.

You agree to furnish the undersigned as at the end of each month a list of all securities in the custodian account.

You agree to provide the undersigned with investment advice with respect to any government bonds or other securities held from time to time in the custodian account or with respect to any cash held by the undersigned for investment.

You or your nominee are hereby authorized in your discretion and without consulting the undersigned to vote, and to grant proxies to vote, with respect to routine matters, all securities which may be held at any time in the custodian account, but it is understood that you or your nominee shall not in any event be obligated so to vote, or to grant proxies to vote, any of such securities. Securities held in the custodian account shall not be voted by you or your nominee with respect to any special matters, except in accordance with instructions received by you from the undersigned.

As compensation for your services as stated herein, you are to be paid a fee at the annual rate of 1/20th of 1% of the market value of the securities or other investments, exclusive of securities of United States Steel Corporation or its subsidiaries, in your custody as of the end of each calendar quarter. Such fee will be payable quarterly beginning with the payment for the first quarter of 1951.

This agreement may be terminated by either of us on thirty days written notice to the other, and in such event all fees are to be prorated.

You shall not be liable for any action or omission to act or for any information or advice given or recommendations or suggestions made, in the absence of wilful misconduct on your part.

You are hereby authorized to accept and act upon any instructions with respect to the custodian account when given by the Chairman of the Committee on Finance of the undersigned or by any person certified to you by said Chairman of the Committee on Finance as being authorized to give such instructions.

[illegible]

A 3702

If this meets with your approval, please indicate your acceptance below.

Very truly yours,

UNITED STATES STEEL AND
CARNEGIE PENSION FUND

By /s/ E. D. Howell
Chairman, Committee on Finance

ACCEPTED:

J. P. MORGAN & CO. Incorporated

By /s/ Longstreet Hinton
Vice-President and Trust Officer

Date November 30, 1950

[illegible] WITH J. P. MORGAN & CO. INCORPORATED, DECEMBER 30, 1950

A 3703

ISSUER AND DESCRIPTION	MATURITY	INTEREST OR DIVIDEND RATE	FACE VALUE
ERAL			
U. S. Treasury Discount Bills	2/8/51	1.36	$1,300,000
" " " " "	2/15/51	1.37	4,300,000
" " Treasury Savings Notes, Series D	7/1/52	1.4	20,000,000
" " Treasury Notes, Series A-1954	3/15/54	1.375	4,125,000
" " Treasury Bonds	9/15/53-51	2.	10,500,000
" " " "	6/15/54-52	2.	4,870,000
" " " "	12/15/54-52	2.	16,500,000
" " " "	6/15/55-52	2.25	500,000
" " " "	3/15/56-58	2.5	26,800,000
U. S. Savings Bonds, Series G	5/1/53	2.5	50,000
" " " " " "	1/1/54	2.5	50,000
" " " " " "	7/1/54	2.5	50,000
" " " " " "	1/1/55	2.5	100,000
" " " " " "	1/1/56	2.5	100,000
" " " " " "	1/1/57	2.5	100,000
" " " " " "	1/1/58	2.5	100,000
" " " " " "	1/1/59	2.5	100,000
" " " " " "	7/1/59	2.5	100,000
" " " " " "	7/1/60	2.5	500,000
" " " " " "	1/1/61	2.5	100,000
" " " " " "	1/1/62	2.5	100,000
" " " " " "	10/1/62	2.5	1,000,000
RAILROAD COMPANIES			
Atchison, Topeka & Santa Fe Railway Company			
Equipment Trust Certificates, Series D	12/5/50	1.25	250,000
Chesapeake & Ohio Railway Company			
Refunding & Improvement Mortgage Bonds G-23	2/1/54	2.2	35,000
" " " " " G-24	2/1/55	2.3	65,000
" " " " " G-25	2/1/56	2.4	45,000
" " " " " G-26	2/1/57	2.45	30,000
" " " " " G-27	2/1/58	2.5	30,000
" " " " " G-28	2/1/59	2.55	30,000
Chicago, Milwaukee, St. Paul & Pacific Railroad Co.			
Equipment Trust Certificates	4/1/51	1.75	53,000
" " "	10/1/51	1.75	52,000
" " "	4/1/52	1.75	53,000
" " "	10/1/52	1.75	52,000
" " "	4/1/53	1.75	53,000
" " "	10/1/53	1.75	52,000
" " "	4/1/54	1.75	53,000
" " "	10/1/54	1.75	52,000
" " "	4/1/55	1.75	53,000
Connecting Railway Company of Philadelphia			
First Mortgage Bonds	3/15/51	4.	291,000
Erie Railroad Company			
Equipment Trust Certificates	10/15/51	2.	75,000
" " "	10/15/52	2.	75,000
" " "	10/15/53	2.	75,000
" " "	10/15/54	2.	75,000
" " "	10/15/55	2.	75,000
" " "	10/15/56	2.	75,000
" " "	10/15/57	2.	75,000

SECURITIES DELIVERED TO CUSTODIAN ACCOUNT OF UNITED STATES STEEL AND CARNEGIE PENSION FUND WITH J. P. MORGAN & CO. INCORPORATED, NOVEMBER 30, 1950

ISSUE AND DESCRIPTION	MATURITY	INTEREST OR DIVIDEND RATE	FACE VALUE
RAILROAD COMPANIES (Continued)			
New York Central Railroad Company Equipment Trust Certificates	1/1/52	1.5	$250,000
PUBLIC UTILITIES			
Bell Telephone Company of Pennsylvania First & Refunding Mortgage Bonds, Series C	10/1/60-57	5.	200,000
Columbia Gas System, Inc. Debenture Bonds, Series B	8/1/75	3.	1,000,000
San Joaquin Light & Power Corporation Unifying & Refunding Mtge. Bonds, Series D	3/1/52	6.	600,000
New England Telephone & Telegraph Company First Mortgage Bonds, Series B	5/1/61-59	4.5	100,000
Westchester Lighting Company First Mortgage Bonds	12/1/50	5.	300,000
Panhandle Eastern Pipe Line Co, Serial Debenture Bonds	5/1/51	1.4	125,000
OTHERS			
American Tobacco Company Debenture Bonds	8/1/51	4.	[illegible]
Caterpillar Tractor Company, 10 Year Debenture Bonds	5/1/56	2.	500,000
Liggett & Myers Tobacco Company Bonds	8/1/51	5.	[illegible]
New York & Pennsylvania Co. Inc. 1st Mtge. Bonds	10/1/65	3.25	1,000,000
Philip Morris & Company Ltd., Inc. Cum. Preferred Stock		3.90	10,000 shs.

A 3705

CBX 57

UNITED STATES STEEL AND CARNEGIE PENSION FUND, INC.
(A PENNSYLVANIA CORPORATION)

71 BROADWAY, NEW YORK 6, N.Y.

COMMITTEE ON FINANCE

April 3, 1959

J. P. Morgan & Co. Incorporated
23 Wall Street
New York 8, New York

Dear Sirs:

It is understood that you are agreeable to amendment of the Custodian Agreement dated November 30, 1950, with respect to the 1950 Trust Account A-288 by substitution of the following provisions.

You are hereby authorized with respect to the Custodian Account and with respect to the bank account of the undersigned designated as "1950 Trust Account A-288":

1. To cause to be registered and to hold in the name of your nominee all securities at any time in the custodian account requiring registration.

2. To collect and credit to the bank account of the undersigned all income with respect to the property held in the custodian account.

3. To surrender for payment maturing obligations and securities called for redemption and to credit the proceeds received to the bank account of the undersigned.

4. To exchange securities in temporary form for like securities in definitive form, and

5. With respect to other transactions in securities, to accept directions as set forth in resolutions adopted by the Committee on Finance of United States Steel and Carnegie Pension Fund, Inc. now on file with you and as may hereafter be filed with you.

You agree to furnish the undersigned as at the end of each month a list of all securities in the custodian account.

You agree to provide the undersigned with investment advice with respect to any government bonds or other securities held from time to time in the custodian account or with respect to any cash held by the undersigned for investment.

You or your nominee are hereby instructed to sign all proxies and to forward said proxies and proxy statements to the undersigned for review. You are also requested to deliver to the undersigned all other material received by you or your nominee in connection with securities held for our account.

As compensation for your services, as stated herein, you are to be paid such fee as may be mutually agreed upon from time to time. Such fee will be payable quarterly.

This agreement may be terminated by either of us on 30 day's written notice to the other and in such event all fees are to be prorated.

You agree as custodian to give the securities or other property received or held by you from time to time subject to this agreement the same care and protection as you give to similar securities and property owned by you.

If this meets with your approval, please indicate your acceptance below.

Very truly yours,

UNITED STATES STEEL AND CARNEGIE PENSION FUND, INC.

By R.C. Tyson
Chairman, Committee on Finance

ACCEPTED:
J. P. Morgan & Co. Incorporated

By
Senior Vice-President

Date APR 8 - 1959

CBA 58

A 3707

September 27, 1971

Morgan Guaranty Trust Company of New York
23 Wall Street
New York, New York 10015

Attention: Mr. James T. Flynn
Vice President

Gentlemen:

Re: Group Trust Fund Account 288

We have purchased $3,000,000 Topper Corporation 7 1/2% Convertible Subordinated Notes due September 30, 1986.

The closing will take place at the office of White & Case at 10 a.m. on September 28, 1971. At that time, please have your official check for $3,000,000.00 to the order of Topper Corporation and charge our Account No. 063-81-082.

The securities are to be held by you as custodian of our account.

Yours very truly,

President

A 3708

CBX59

[illegible]

[illegible]

UNITED STATES STEEL AND CARNEGIE PENSION FUND, INC.
(A PENNSYLVANIA CORPORATION)

71 BROADWAY, NEW YORK, N.Y. 10006

September 28, 1971

Morgan Guaranty Trust Company of New York
23 Wall Street
New York, New York 10015

Attention: Mr. Alan Tepe, Assistant Vice President

Re: $3 million Topper Corporation 7½% Convertible Subordinated Notes due September 30, 1986 in Group Trust Fund Account 288.

Gentlemen:

This will confirm our previous instructions to you to sign the Purchase Agreement associated with the Topper closing this morning.

Mr. Selkirk of your organization attended the closing and we wish to thank you and him for your cooperation in the purchase of these notes.

Very truly yours,

President

A 3769

Memorandum Re: United States Steel Corporation Custodian Fees
February 18, 1966

Attached are two memoranda which have been prepared by Philip Heston, A in the Customer Securities Department, one analyzing the costs, fees, and servic in connection with the General Electric Pension Trust, and the other related to the three U. S. Steel Trusts. The fee schedules are different, and in the case of the eral Electric Fund, no investment service is furnished. Our review of this matte comes up as a result of our commitment to assure the Steel Corporation that the made to it are the most favorable available from the Bank. The General Electric sion Fund is the most nearly comparable, although there are significant difference its characteristics.

The following table summarizes the services and the amount of activity to w our fee scales are applied in the case of the General Electric and United States Ste Pension Funds:

	G. E.	U.S.S
Securities Transactions During 1965	1,758	1,185
Number of Issues	347	456
Number of Shares of Stock	15,222,201	15,305,4
Par Value of Bonds	$418,852M	$380,
Investment Consultation	No	Yes
Comptrollers' Estimated Custodian Cost Exclusive of Investment Consultation	$61,831	$57,1
Fee Actually Charged	$48,636.87	$94,9
Excess of Fee Over Cost	($13,195.13)	$37,7

The fin figure shown immediately above points up the fact that in the cas General Electric Company, we do not recover our full cost as currently estimated Comptrollers' Department - the difference being charged against the 399 Park Ave fice. This cost is considered to be covered by balances carried by General Electri sion Fund approximating $600 to $700M.

CBX 64

CBX 64

In the case of United States Steel, we may assume a value of the consultatio services of $10,000 to $25,000. This service consists of four meetings a year of fou or five of our Senior Investment Officers with the investment office of the United States Steel Pension Funds. Assuming the maximum figure of $25,000 as the value of the investment consultations, there is still an amount available as profit of $17,7 in striking contrast to the failure to recover our costs through fees to General Elec by the amount of $13,194.13. In the matter of balances, it is worth noting that the U States Steel balances approximate $2.2MM, three times those of General Electric sion Fund.

In view of the foregoing, it appears appropriate at this time, since we must spond to United States Steel Corporation with regard to its fees, that we either esta a policy of recovering at least our full cost through fees charged to General Electri pany, or that we give United States Steel Corporation a reduction in its fees for cus services proportionate to the relatively greater balances carried with us. In view c concern as to profits in 1966 and beyond, and as to the proper recovery at least of o costs, this would appear to be an appropriate time to give greater weight to the firs ternative, unless there are compelling considerations to the contrary.

W. Howard Miller
Vice President

A 3711 CBX 65

MEMORANDUM TO: Mr. W. Howard Miller
Vice President
•••••••••••••••••••

Re: #71.1828 General Electric Pension Trust

As you know, the Trust and Investment Division safekeeps and services in custody the marketable securities comprising the portfolio of this fund. It is estimated that the current value of these securities approximates $950,000,000. In addition, we safekeep 797 real estate leaseback agreements. The facilities and skill of our senior investment officers are not included or utilized in this relationship. Aside from composition of portfolio and method of compensation variances, the lack of investment service is certainly the major difference between this relationship and the one the Trust and Investment Division enjoys with the United States Steel and Carnegie Pension Fund as detailed in my memorandum of January 25, 1966 to Mr. C. K. Green, V.P.

With respect to fees, on this account the following schedule is applied:

1/10 of 1¢ per share
$10 per stock issue
20¢ per $1,000 par value coupon bond
(changed from 12¢ on 7/1/63)
3¢ per 1,000 p.v. U. S. Government Bonds
3¢ per 1,000 p.v. Reg'd. Bonds & Cond'l. Sales
(changed from 1½¢ on 7/1/63)
$3 per R/E leaseback

Deliveries - $5 each
Receipt of Bonds - $5 each
Receipt of Stocks - $8 "

This schedule has resulted in the following fees since 1959:

1959 -	$45,678.07
1960 -	58,663.31
1961 -	61,615.00
1962 -	50,300.14
1963 -	$54,958.05
1964 -	56,378.64
1965 -	40,636.87

As mentioned at our meeting, these fees do not cover our bare cost. For example, for 1965, using the same revised Comptroller's cost formula applied to the U. S. Steel accounts, a total cost of $61,831 is indicated for safekeeping and servicing the General Electric Pension Trust portfolio based on the following:

1,750 security transactions during 1965
347 issues
15,222,201 shares of stock
418,052,000 par value of bonds

65

Based on the foregoing, reasonable compensation to First National City Bank for safekeeping and servicing this portfolio approximates $80,400. However, as you know, present policy only permits the Trust and Investment Division to recover their bare cost on substandard fee accounts. Accordingly, the Trust and Investment Division's compensation on this account for 1965 amounted to $61,031.

As pointed out at the time of our meeting on Friday with Messrs. Lourie and Green, we feel that reasonable compensation to FNCB for safekeeping and servicing United States Steel and Carnegie Pension Fund's portfolio alone approximates $75,000 or about $5,000 less than we feel represents reasonable compensation on the General Electric Pension Trust Fund.

I shall, of course, look forward to discussing these matters with you further at your convenience.

Philip W. Heston

Philip W. Heston
Assistant Vice President

January 28, 1966

cc: Mr. D. K. Lourie, V.P.
Mr. G. K. Green, V.P.

A 3713

MEMORANDUM TO MR. JAMES F. JAFFRAY
SENIOR VICE PRESIDENT

RE: United States Steel Corporation

February 9, 1966

Attached are two memoranda which have been prepared by Philip Heston, AVP in the Customer Securities Department, one analyzing the costs, fees and services in connection with the General Electric Pension Trust, and the other related to the three U.S. Steel Trusts. The fee schedules are different, and in the case of the General El tric Fund, no investment service is furnished. Our review of this matter comes up as result of our commitment to assure the Steel Corporation that the charges made to it the most favorable available from the bank. The General Electric Pension Fund is the most nearly comparable, although there are significant differences in its characterist

The following table summarizes the services and the amount of activity to wh our fee scales are applied in the case of the General Electric and United States Steel P sion Funds:

	G. E.	U.S.S.
Securities Transactions During 1965	1,758	1,185
Number of Issues	347	456
Number of Shares of Stock	15,222,201	15,305,458
Par Value of Bonds	$418,852M	$380,036M
Investment Consultation	No	Yes
Comptrollers' Estimated Custodian Cost - Exclusive of Investment Consultation	$61,831	$57,132
Fee Actually Charged	$48,636.87	$94,912.15
Excess of Fee Over Cost	($13,195.13)	$37,780.15

The final figure shown immediately above points up the fact that in the case of General Electric Company, we do not recover our full cost as currently estimated by the Comptrollers' Department - the difference being charged against the 399 Park Avenue Office. This cost is considered to be covered by balances carried by General Electric Company. General Electric balances are in the area of $15MM to $17MM.

CBX 67.

A 3714

MEMORANDUM TO: Mr. Gordon Olson
Interest & Fee Section
•••••••••••••••••••••

Re: #755104 U. S. Steel and Carnegi Pension
Fund 1950 Trust A/C B 17

As you know, the fee collected on this account is presently being allocated one half to the Investment Advisory Department and the balance to the Customers' Securities Department. Based on the present value of the portfolio and current fee schedule, our compensation is currently at the approximate per annum rate of $102,000.

This account has recently been the subject of discussion by Messrs. Hoguet, Lourie, and Pescatello. It has been concluded that adequate compensation for Investment Advisory services approximates $20,000 per year and, therefore, retroactive to January 1, 1966, will you kindly arrange to allocate the fees collected on this account until further notice as follows:

Custodian Services Department	75%
Investment Advisory Department	25%

Thank you for your attention to this matter.

Philip W. Heston
Assistant Vice President

February 8, 1966

CBX 68

A 3715

CBWL-Hayden, Stone Inc.

Inter-Offic

Subject: Topper Private Placement

To: Files

From: Jay R. Inglis

Date: July 23, 1971

Paul Degnan of Allstate Insurance Company declined the private placement on the basis of the Company's past financial record and the fact that its committee would not find the quality of the issue acceptable.

He made the following remarks: He had checked with the Sears people on the industry and their opinion was that it was highly risky. The fast growth rate of the last 5 years by companies such as Ideal and Mattell was based on television advertising and the advent of the discount store. In their opinion, growth has peaked and all the manufacturing companies should be in for a period of trouble based on eroding profit margins. He indicated that Allstate would be interested in the industry at a considerably lower multiple and that this adjustment would probably occur over the next couple of years. He indicated that the stock would be an interesting play and he thought that Allstate might buy some.

J. R. I.

JRI:ams

CBX 73

CBX 73

A 3716

13(d)

TOPPER CORPORATION

NOTE PURCHASERS

JULY 18, 1968

Stockholder		Principal Amount	Number of Shares
Mae Bach	[illegible]	$ 100,000	15,000
✓ Mason Benson	[illegible]	50,000	7,500
Melvyn Berlind	[illegible]	50,000	7,500
Harold Cagen	[illegible]	50,000	7,500
Chilewich Associates Fund	[illegible]	50,000	7,500
Edper Investments Limited	Bronfman family	500,000	74,850
✓ Anthony Francis		20,000	3,000
✓ Albert Hammer		75,000	11,250
Martin Horwitz -	[illegible]	62,500	9,375
Cyril Jalon -	[illegible]	25,000	3,750
Ludwig Jesselson	[illegible]	75,000	11,250
William E. Johnson		225,000	33,675
Leib Merkin, Inc.-	investment company of Merkin family [illegible]	75,000	11,250
✓ Eli Ogulnick		25,000	3,750
Daniel Orenstein		60,000	9,000
✓ Seymour Orenstein		90,000	13,500
✓ Seymour Orenstein		50,000	7,500
✓ Francis and Henry Preston		20,000	3,000
✓ Margaret B. Roman		15,000	2,250
✓ Chaim Silberstein		40,000	6,000
Sidney Tepper or Helen L. Tepper		50,000	7,500
✓ Rose Torren		20,000	3,000
✓ Jack Waldman		40,000	6,000
Louis Waldman		40,000	6,000
Jack Wilder	[illegible]	62,500	9,375
F. P. Zoch, Jr. -	[illegible]	75,000	11,250
TOTAL		$1,945,000	291,525

some are stockholders of [illegible]

CBX 74

A 3717

4(c.)

TOPPER CORPORATION

NOTE PURCHASERS

JUNE, 1969

Stockholder	Principal Amount	Number of Shares
Isidore A. Becker	$ 300,000	7,500
✓ Jerome Blatt	90,000	2,250
Samuel Bialkin	60,000	1,500
– Arthur Cohen	150,000	3,750
✓ John J. Dunn, Jr.	30,000	750
Geary & Co.	150,000	3,750
Leonard C. Lane	300,000	7,500
Murdoch and Company	150,000	3,750
Paragon Company	99,000	2,475
Malcolm E. Smith, Jr.	150,000	3,750
The Sperry & Hutchinson Company	300,000	7,500
Robert W. Sarnoff	150,000	3,750
David A. Werblin	150,000	3,750
TOTAL	$2,079,000	51,975

I. Solicitation [illegible] of lenders,

(1) [illegible]

(2) [illegible]

(3) regular customers.

II Copies of offering document,

A 3718 4(a)

NOTE PURCHASERS

DECEMBER, 1969 - JANUARY, 1970

[illegible]

	Principal Amount	Number of Shares
Gulf & Western Employees Retirement Pooled Trust Fund #2 [illegible]	$ 250,000	5,000
Telepix Movies Limited [illegible]	250,000	5,000
Edper Investments Ltd. [illegible]	500,000	10,000
✓ William E. Johnson	250,000	5,000
Daniel Orenstein	40,000	800
✓ Seymour Orenstein	100,000	2,000
✓ Seymour Orenstein	60,000	1,200
Lutheran Brotherhood [illegible]	500,000	10,000
Cogan, Berlind, Weill & Levitt, Inc. -	200,000	4,000
Toy Associates [illegible]	250,000	5,000
✓ Malcolm C. Downs [illegible]	50,000	1,000
✓ Sidney Tepper or Helen L. Tepper	50,000	1,000
Herbert Rosenthal [illegible]	100,000	2,000
✓ Marrius Orenstein	500,000	10,000
✓ Henry Orenstein	500,000	10,000
Pitt & Company - [illegible]	250,000	5,000
Jerome & Company - [illegible]	500,000	10,000
Trustees of Trust B Under the Will of Arthur J. Cohen, Deceased	115,000	2,300
Trustees U/T/A Dated 3/18/66 for Benefit of James A. Heller	15,000	300
Trustees U/T/A Dated 3/18/66 for Benefit of Susan Klee Heller	15,000	300
Trustees U/T/A Dated 3/18/66 for Benefit of Carl Meyer II [illegible]	15,000	300
Trustees U/T/A Dated 3/18/66 for Benefit of John Paul Meyer [illegible]	15,000	300
Trustees U/T/A Dated 3/18/66 for Benefit of Thomas A. Cohen [illegible]	15,000	300
Trustees U/T/A Dated 3/18/66 for Benefit of Matthew Cohen	15,000	300
Trustees U/T/A Dated 3/18/66 for Benefit of Stephen Louis Cohen	15,000	300
Trustees U/T/A Dated 3/18/66 for Benefit of Laurie Cohen	15,000	300
Trustees U/T/A Dated 3/18/66 for Benefit of Elizabeth Cohen	15,000	300
Total at 12/31/69	$4,600,000	92,000
Joseph Stern - [illegible]	100,000	2,000
A. Edward Miller - [illegible]	250,000	5,000
The Hillman Company [illegible]	250,000	5,000
Total at 1/28/70 [illegible]	$ 600,000	12,000
TOTAL	$5,200,000	104,000

A 3719

TOPPER CORPORATION

JUNIOR PARTICIPANTS

FEBRUARY 27, 1968 AND APRIL 9, 1968

Stockholder		Principal Amount	Number of Shares
acquin D. Bierman	[illegible]	$ 25,000	3,150
Richard Davimos		50,000	6,225
W.D. Ettinger, Inc.	[illegible]	37,500	4,725
Paul L. Fraiberg -	[illegible]	50,000	6,225
Bernard Gabler		10,000	1,275
Harold Johnson -	[illegible]	50,000	6,225
dward Netter	[illegible]	25,000	3,150
Henry Orenstein		650,000	81,450
Marrius Orenstein		650,000	81,450
Seymour Orenstein		150,000	18,825
Mr. & Mrs. Henry Preston		25,000	3,150
Arthur Sherr -	[illegible]	25,000	3,150
Charles Sivelle		35,000	4,350
Sanford Weill -	[illegible]	50,000	6,225
Augusta Weissberg	[illegible]	37,500	4,725
Roger S. Berlind	[illegible]	50,000	6,225
Total 2/27/68		$1,920,000	240,525
The Aeroflex Foundation	[illegible]	50,000	6,225
Roger S. Berlind	[illegible]	12,500	1,575
Robert Haber -	[illegible]	40,000	4,950
Meshulam Riklis	[illegible]	150,000	18,825
harles Sivelle		10,000	1,275
Sanford Weill	[illegible]	12,500	1,575
Stanley Zuckerman	[illegible]	25,000	3,150
Total 4/9/68	[illegible]	$ 300,000	37,575
TOTAL		$2,220,000	278,100

Exhibit A

CBWL-Hayden, Stone Inc.

Inter-Office Memo

Subject: Topper Corporation

To: Mr. Mahlon Frankhauser

From: Francis J. Byrnes

Date: June 26, 1972

For your information, I have listed below sales and earnings estimates for Topper Corporation which were prepared and published by the Research Departments of various investment bankers, brokers and research firms on Wall Street. To the best of my knowledge, no one at CBWL-Hayden, Stone, including me, has ever discussed Topper with any of the people responsible for such estimates.

Date of Estimate	Firm Issuing Estimate	Calendar Year	EPS	Sales In Millions
ly 15, 1971	Weis, Voisin	1971 1972	70- 75¢ $1.25-1.50	- -
ly 21, 1971	Weis, Voisin	1971 1972	70- 75¢ $1.25-1.50	- -
ly 29, 1971	Merrill, Lynch	1971	60- 75¢	$70
ust 19, 1971	Wall Street Journal (Heard on The Street)	1971	70- 85¢	$70-7
pt. 24, 197	Argus Research Corporation	-	-	
ct 1, 1971	Argus	-	-	-
ct. 14, 1971	Weis, Voisin	1971 1972	70- 80¢ $1.25-1.50	$70-7
ct. 15, 1971	Argus	1971 1972	$.75 $1.40	-
v. 12, 1971	Argus	1971 1972	$.65 $1.40	$72 $90

CBX 77

Comments:

July 15, 1971; Weis, Voisin-The Research Department of Weis, Voisin mentions in this report, in addition to the earnings estimates above, ("we continue to estimate at least 70-75¢ a share"), that Topper had recently completed a $7 million private financing and had announced the intention of placing an additional $5 million in private financings in the near future. "Upon completion of this additional $5 million the company (Topper) will have, in effect, cleaned up its balance sheet by converting some $20 million in short-term bank loans into long-term borrowings and equity." In addition, "We continue to regard Topper Corp. as a decidedly attractive speculation for capital gains".

July 21, 1971; Weis, Voisin-Basically this wire reiterates the information in the July 15 wire. "For the full year we continue to anticipate earnings of at least $0.70-0.75 a share and anticipate a substantial increase to between $1.25-1.50 per share for 1972 based on the initial full years shipment of the Sesame Street Line".

July 29, 1971; Merrill, Lynch, Pierce, Fenner and Smith-This Research report discusses the fact "that Topper has become a major factor in the toy industry" and "that in our opinion (MLPFS) the stock is an interesting long-term speculation recognizing the risks of a highly seasonal business, narrow product line and short product life". "On an estimated 35% increase in shares outstanding, we estimate Topper's 1971 earnings at 60¢-75¢ per share vs. 51¢ in 1970." "For 1972, we believe that earnings will be benefitted by a substantial improvement in sales and earnings from the Sesame Street line and by lower amortization of tooling."

August 19, 1971; Wall Street Journal's "Heard on the Street" column written by Dan Dorfman-"...sources close to Topper's management say the concern is aiming for 1971 net of between 70¢ and 85¢ a share, including the import-tax bite, on volume of $70 to $71 million".

September 24, 1971; Argus Research Corporation-This report is a follow up to a previous report issued by Argus. Although it doesn't offer an earnings estimate, it does talk about a price objective. "We continue to regard the stock as a buy up to $17½ for a $25 to $30 price objective by early 1972.

October 1, 1971; Argus Research Corporation-This report talks about things looking favorable for Topper particularly the initial reception on the consumer's part at various New York metropolitan stores for certain Sesame Street toys. Argus also mentions the company's private placement and repeats their price objective of $25 to $30 per share by early 1972.

October 14, 1971; Weis, Voisin-Weis Voisin attributes the recent weakness in Topper's stock "to an article in the Wall Street Journal which discussed the Food and Drug Administration's program to crack down on hazardous toys. Topper's name was mentioned as a major manufacturer of thermal toys. We assume the article refers to the 'Susie Homemaker line".

Weis Voisin goes on to say that this line accounts for a small portion of sales and, therefore, "we anticipate no effect on the company's sales and earnings from the FDA program".

Weis Voisin then states that Topper has converted over "$18 million from short-term bank loans into longer term debt and equity" and "that the current ratio now slightly exceeds 2 to 1". Weis Voisin projects earnings and sales as outlined above and says that "the stock continues to be rated as attractive for long-term speculative capital gains".

October 15, 1971; Argus Research Corporation-Argus continues to estimate 75¢ for this year and $1.40 for next year and reports: "tremendous consumer response to the Sesame Street line continues to come in from selected retail establishments". Argus further states that "if the East Coast dock strike does last for 3 to 4 weeks, the company's earnings this year could possibly be hurt by 6¢ or 7¢". Argus goes on to say that the company is in a substantially better financial condition than 6 to 9 months ago particularly their debt to equity ratio and current ratio. Argus also talks about a recent Wall Street Journal article concerning dangerous and hazardous toys and that this in fact is old news. Argus reiterates its buy recommendation "for a play to the $25-$30 area by early 1972."

November 12, 1971; Argus Research Corporation-In this report Argus states that it continues to consider Topper a very attracti situation. Earnings for 1971 are estimated in this report at 65¢ versus 75¢ previously "because of the East Coast dock strike There is no mention of any problem besides this one. The report discusses various lines of business other than Sesame Street and whether or not they are declining. Argus states that declines are occurring in certain lines (Johnny Lightning) but that these sales declines were anticipated and have been built into their estimates. Argus goes on to discuss a sales estimate of $90 million for 1972 with a substantial projection of such sales increase coming from other new products.

Argus also discusses the fact that the company has recently completed a private placement of debt and that "their balance sheet is very strong at the present time and compares favorably with any manufacturing company". "Their earnings have been on target all year. The fundamental development of the company has continued as we have expected it; the only thing is that the price has slipped. We think that it is a very attractive purchase here, selling at a low multiple compared to 1972 estimates at $1.40 a share with 65¢ earnings pretty well assured for this year. We recommend that you put this stock in accounts where you have not talked about it before."

Argus also suggests that for accounts which already own the stock at higher prices, they consider additional purchases at these levels to average down.

FJB:BSL

[illegible]

Corning Glass Works, in the minds of some investors, stands out as a quality holding. Based on strong management, excellent technology and a bevy of quality products, the company has won a strong institutional following. And, as such, at yesterday's closing price of [illegible], off 1¾, the stock is one of the Big Board's highest priced issues.

As one analyst puts it: "Try raising questions about this company to some of the pension funds and they think you're un-American. . . ."

Nonetheless, there are skeptics, notably those who argue that a price-earnings multiple of roughly 40 times some analysts' estimates of 1971 earnings is excessive. Their arguments: A sloppy earnings trend in recent years and the possibility of more profit disappointments over the near term because of current weaknesses in such areas as the integrated circuit business and international operations.

Following President Nixon's announcement earlier this week of his new economic policies, Corning shares were one of the most volatile performers in the glamor sector, leaping 16½ Monday and another 5½ on Tuesday. Aside from the President's pronouncements, at least part of the rise may also have stemmed from the belief that business is finally out of the doldrums at Corning. One reason for this is the last reported results for the 24 weeks ended June 20. The company didn't break out second period net, but indicated earnings were $1.44 a share, up from $1.22 a year earlier.

For the whole 24 weeks, earnings dropped to $3.01 a share from $3.08.

Apparently, the second period results were such that they prompted one research-oriented brokerage concern to put out a buy recommendation on the stock earlier this month. Along with it was a forecast that earnings for the third period (16 weeks ending Sept. 12) would be up to at least $1.50 a share from $1.31 a year earlier.

However, in an interview yesterday, Amory Houghton Jr., 44-year-old chairman of Corning, was hardly exuberant about current business. While he didn't make any forecasts, he did say business isn't up to expectations. Adding that "we expected a faster pickup in our established lines than we have seen," Mr. Houghton says of the third period: "It isn't going to be what we wanted it to be."

The official observed that the company "is taking a bath" this year in the international market, which, in 1970, accounted for about 20% of sales. In particular, he cited a slowdown in the European economy, primarily in the electronic area.

Asked about full-year prospects, Mr. Houghton again wouldn't talk specific figures. He did, however, expect earnings to improve if the economy responded to the President's program, if there's more confidence in the industrial sector and if international business picks up. "That's a lot of ifs," he adds. The company earned $5.63 a share in 1970, down sharply from 1969's $7.27.

Mr. Houghton noted that the Signetics division (integrated circuits), which had a $5 million loss last year, is still in the red, "but substantially less than a year ago." He added, "We're beginning to get control of that company (operation) and I look for it to continue its upward trend."

Those analysts who are less than ecstatic with the company's profit in recent years are seemingly seconded by Mr. Houghton, who observed: "I'm very unhappy with our profitability." As such, he stresses that the company is going through a period of changing its mix, putting more emphasis on such sectors as the consumer segment, the optical-ophthalmic area and the health-care field. He also cited efforts to gain a greater share of the housewares market.

Replying to the critics who complain of an irregular earnings pattern at Corning Glass, Mr. Houghton says: "You can't take the temperature of this company by looking at earnings on a quarter-to-quarter basis." He asserts that the company is geared to a longer-term strategy.

Noting, for example, the company's faith in the basic fields of science, coupled with plans to continue to expend heavy sums for research and development, Mr. Houghton talks enthusiastically of the company's pursuits in such areas as automobile-emission control. If the company is successful in this area, "it will be terrific," he says. "That's the kind of investment we're going to make because it has worked for us before," he adds.

What about the year ahead?

Here again, Mr. Houghton declines to be specific, other than to say: "I expect our established lines to do better." He also cites what he terms the leverage factor, noting that "we've sliced our costs way down and we got a hell of a lot of excess capacity in our operation."

• • •

Imposition of a 10% tax surcharge has taken its toll on the stocks of the importers. But one of them, Topper (American), a toy concern that derives about 40% of its sales and earnings from Far Eastern imports, insists the picture isn't as bad as it looks. For one thing, Henry Orenstein, Topper's president, maintains that the tax can be offset by higher prices next year. Asked what would happen, for example, if the 90-day wage-price freeze ordered by President Nixon should be continued, Mr. Orenstein thinks this could be surmounted by product variations—in other words, "new" products. He estimates the tax will cost Topper about five cents a share in earnings this year.

On another matter, Mr. Orenstein says Topper has orders for $5 million of products bearing the Sesame Street name for delivery this year. He adds that further orders are being taken on these products for 1972 delivery, but observes that such orders can't exceed $5 million this year because of production limitations. Topper's tie-in with the Sesame Street television program isn't exclusive in the toy sector, although the concern does have exclusivity on certain of the program's key puppets. While Mr. Orenstein won't make any forecasts, sources close to Topper's management say the concern is aiming for 1971 net of between 70 cents and 80 cents a share, including the import tax bite, on volume of about $70 million to $71 million. In 1970, Topper earnings were $1.5 million, or 51 cents a share, from continuing operations on sales of $61 million.

WSJ · 8/19

[illegible] indigestion for some time now, but you wouldn't know that if you happened to be a shareholder in Topper Corp., a recent entr[illegible] on the American Stock Exchange.

Despite erratic results and a balance sheet that is rated by several analysts as far from the strongest, the shares of this toy company have been sizzling on brisk volume. The issue, which jumped about 20% last week and is up more than 60% in approximately the past four months, has dotted the American exchange's active roster for six consecutive sessions. After hitting a 1971 high of 19½ last Friday, more than double its year's low over the counter of 9⅛, the stock closed yesterday at 18⅝, down 1⅛. Its turnover of 35,100 shares placed it first on the active list.

The chief reason for Wall Street's enthusiasm is a tie-in with the widely acclaimed children's educational television show, Sesame Street. In March, the company entered into a royalty agreement with the program's producer, Children's Television Workshop, whereby Topper will produce a line of products under the Sesame Street name. The two will share the profits on a 50-50 basis.

Accompanying the rise in the stock have been increasingly rosy earnings estimates from Wall Street, some of which even Topper's management characterizes as "ridiculous." And in the minds of some analysts, an affiliation with Sesame Street may well have smitten some investors to the point where they're overlooking several obvious uncertainties.

It's these uncertainties, for example, that have led one toy industrial specialist, William D. Schwartz, vice president of Burnham & Co., to advise clients to avoid any new purchases of the stock. He isn't alone in his thinking.

While Mr. Schwartz thinks the issue can be held as a "speculation" based on its momentum, he questions its investment merits on these counts:

—The unpredictability of Topper's frequently volatile non-Sesame Street business ($64 million in sales last year), which Mr. Schwartz thinks is as likely as not to be soft this year. It's noted that Topper products, in the past, have had short "life cycles."

—The tie-in with Sesame Street in the toy sector isn't exclusive, and it's likely that other toy makers will be licensed to produce Sesame Street products.

—The company has sold a lot of equity in the past 1½ years and is likely to go into the equity market again to finance its expansion. Such a move would represent potential dilution to per-share earnings.

Also citing the fierce competition in the preschool toy field, Mr. Schwartz estimates 1971 net at about unchanged or slightly higher than 1970's 51 cents a share from continuing operations. As for 1972, he sees a "moderate to good increase."

Oppenheimer & Co.'s Eugene Glazer says "Sesame Street excites me, but Topper's balance sheet doesn't." Using figures as of year-end 1970, prior to a stock offering last April, Mr. Glazer notes that the ratio of assets to liabilities—1.2 to 1—wasn't strong, with $20 million of the $33 million in liabilities consist[illegible] [illegible] that about $14 million of the company's volume last year came from customers who were given five to eight months to pay their bills. In other words, he said, customers were using Topper to finance their business.

Asked about the balance sheet, Henry Orenstein, Topper's president, says "from being terribly undercapitalized in the past, we're improving our financial position." Another company official adds that Topper has a tentative commitment from an institutional investor for $7 million in nonsubordinated long-term financing. He further notes that equity financing—in the form of about $5 million of convertible subordinated debentures—also is being discussed with some institutional investors.

At least part of the recent enthusiasm for Topper's shares is attributed to rumors that Argus Research Corp.'s special situation department is, as one analyst put it, "hot on the stock and pushing it."

But a check with Joseph McAlinden, head of the department, finds it isn't so. He says Argus did recommend it in mid-July at slightly under $16. But it placed a buy limit at $17.50 and currently views the issue as a hold for the intermediate term (six to nine months), he reports.

The analyst is projecting 1971 net of 80 cents a share on volume of $72 million. He sees a further rise to about $1.40 a share next year on sales of about $90 million. As for the Sesame Street tie-in—products will begin to be shipped in about five weeks—Mr. McAlinden sees a contribution of $5 million in sales this year and between $15 million and $20 million in 1972.

Mr. McAlinden sees net benefiting from elimination in October of the amortization of old tooling costs, which Topper has been writing off at the rate of about $1,450,000 annually, pretax, over the last five years. He also looks for some new product lines, including Sesame Street products, to more than offset the "substantial decline" he expects this year in the Johnny Lightning line of miniature racing cars.

While rating the stock a hold, the analyst nonetheless stresses that "it isn't for widows and orphans." Says Mr. McAlinden: "A lot of things could go wrong." He cites, among other things, the possibility of a lengthy dock strike on the East Coast (Topper's imports are shipped there), the uncertainty of how the new products will perform and the ever-present possibility that such Topper product lines as Johnny Lightning and the Dawn dolls mightn't live up to his sales expectations.

A check with the people producing Sesame Street finds that they're in active negotiations with other toy makers involving additional licenses. A spokesman says it's possible other manufacturers will be producing toys and records with the Sesame Street name before year-end. Licenses already have been granted to two other concerns—Western Publishing, traded over the counter, and Colorforms, which is privately held.

Topper's Mr. Orenstein says he can't make any comment on earnings as the concern is in registration with a proposed sale of 125,000 shares, the bulk of which has already been sold. He does say, though, that the response to the Topper lines of Sesame Street products has been "most gratifying."

ARGUS RESEARCH CORPORATION

Supplementary Consultation Service
as reported by Mr. James Randall
November 12, 1971

First I would like to bring to your attention the situations that we think now look attractive again. The first one is Topper; let me re-emphasize why we bought the stock, and what has happened and why we think this is very attractive. We originally bought the stock because the industry was growing at 11-12% a year, and toy manufacturers were enjoying very fast growth. In addition most of the big three companies were selling at 19-30 times earnings. At that time we thought Topper had a very good possibility of selling at 20 times earnings per share. In 1968 they had sales of $35 million and $.16 a share. In 1970 they earned $.51 a share on sales of $64 million; we estimate $.65 this year on sales of $72 million and $1.40 next year on sales of $88 million. The reason I say $.65 versus $.75 is the fact that we are cutting our estimate by $.10 because of the East Coast dock strike.

Why has Topper been weak? The first reason is that it started with an unfavorable comment written by Dorfman in his Heard on the Street column in the Wall Street Journal. Combined with this weak market and some investor confusion over the earnings report issued for the months in the third quarter, and the dock strike, we now have a stock which has declined from the middle teens down to around 10. Several negative comments have been - what about Topper's other lines other than "Sesame Street". The quesiton is, aren't they declining, some of them are; but everything is built into our estimates. Their entire line had sales of $54 million in 1970, this does not include "Zoomer-Boomer, Ding-a-Ling, or Sesame Street." In 1972 they should have sales of $93 million. "Zoomer-Boomer" should have sales of $11 million, "Ding-a-Ling" $9 million and "Sesame Street" $20 million. Some of the other items are declining such as "Johnny Lightning" from $14 million in sales in 1970 to an estimated $3 million in 1972. Until recently the company has been weak financially, and alot of people viewed Topper as a trophy-type company-a very weak financial organization. This was true for awhile, but it is no longer true because the company has gone to the equity market. They have in turn placed private debt, and their balance sheet is very strong at the present time and compares favorably with many manufacturing companies.

Another question is what about the fierce competition in the toy industry? There is fierce competition, but the fact that Topper has had a good growth record is certainly a feather in their hat.

What are some of the positives? Number one, the "Sesame Street" business is very strong. They have a $7 million backlog for this year, $500,000 worth of "Sesame Street" items have been shipped, and they have five

Page 2

puppets in production. Their "Walking Letters" line is in production, and the "Telephone" line is being tooled on schedule. In addition they have approval for a new line of finger puppets. Their earnings have been on target all year. We estimate $.30 in the fourth quarter versus $.[illegible] last year. If we earn $.65, the fourth quarter earnings could be from $.25-$.30. The fundamental development of the company has continued as we have expected it; the only thing is that the price has slipped. We think that it is a very attractive purchase here, selling at a low multiple compared to 1972 estimates at $1.40 a share with $.65 earnings pretty well assured for this year. We recommend that you put it in accounts where you have not talked about it before. You may [illegible] people who have a higher price and purchase than an average low [illegible] stock. The market has been sliding and [illegible] to end of the year [illegible]

A 3727

Supplementary sultation Service
as reported by Mr. James Randal.
October 15, 1971

Topper - Our estimates are still $.75 for this year, and $1.40 for next. Reports of tremendous consumer response to the "Sesame Street" line continue to come in from selected retail establishments. The company will probably be very much helped by the "Sesame Street" name because it will take some of the seasonality out of their earnings. There is a chance that if the East Coast dock strike does last for 3 to 4 weeks, the company's earnings this year could possibly be hurt by $.06 or $.07. Even at that their earnings would be up over last years when they earned $.51. Nine-month earnings should amount to roughly $.50 a share versus $.45 for last year which reflects the new financing they have had. The company is a lot better off financially looking at the balance sheet now compared to 6-9 months ago. Their debt to equity ratio is a lot better and they have favorable current ratio, whereas before it was quite weak. There has been a lot of bad news about Topper during the time we have been recommending it. There was an article in the Journal 2 days ago concerning dangerous and hazardous toys.

Topper's name was mentioned, but this should not be a big factor. The "Suzie Homemaker" line is the one the FDA was talking about. This is all news basically. But just the fact that Topper's name appears from time to time in some negative comments doesn't help the stock price-wise. However, we think the stock will act a lot better. Fundamentally we like it, and we would buy it up to 17-1/2 for a play to the 25-30 area by early 1972.

DATE: OCTOBER 14

FOLLOW-UP REPORT

[illegible] CORPORATION ALSO [illegible] EXPRESS [illegible] SALES [illegible] PREVIOUSLY [illegible] IN AN ARTICLE IN THE WALL STREET [illegible] DISCUSSED [illegible] AND [illegible] CONSUMERS [illegible] HAZARDOUS TOYS [illegible] HAS [illegible] AS [illegible] TOYS [illegible] THE [illegible] THE SOLY [illegible] THE COMPANY [illegible] COMPANY [illegible] ACCOUNTS FOR A VERY SMALL PORTION OF [illegible] SALES AND [illegible] ANTICIPATE [illegible] EFFECT [illegible] SALES AND EARNINGS FROM THE FDA PROGRAM.

THE COMPANY RECENTLY COMPLETED ITS FINANCING AND [illegible] OVER $18 MILLION FROM SHORT-TERM BANK LOANS INTO LONG-TERM DEBT AND EQUITY. THE COMPANY PLACED $[illegible] MILLION OF 11½ PCT FIVE-YEAR NOTES WITH THE FORD MOTOR CREDIT COMPANY. AND [illegible] MILLION [illegible] SUBORDINATED DEBENTURES CONVERTIBLE AT $35 WAS ALSO PLACED PRIVATELY. WE UNDERSTAND THE U.S. STEEL PROFIT [illegible] CAPITALIZATION [illegible] ITIES. THE CURRENT RATIO NOW SLIGHTLY EXCEEDS 2-TO-1.

PRELIMINARY PROJECTIONS FOR THE FULL YEAR INDICATE SALES OF $10-$12 MILLION. WE WOULD ANTICIPATE [illegible] PRODUCT LINE [illegible] $13[illegible] [illegible] PRODUCTION [illegible] SEVERAL WEEKS AGO AND WILL PROBABLY [illegible] FULL [illegible] SCHEDULES BY THE END OF THE [illegible] WE ESTIMATE A CONTRIBUTION OF $[illegible] FOURTH QUARTER [illegible] OF $0.70-[illegible] THE FULL YEAR ON THE CURRENT CAPITALIZATION VERSUS $0.21 FROM CONTINUING OPERATIONS DURING 1970 ON FAR FEWER SHARES.

WE BELIEVE THE NINE-MONTH RESULTS DUE TO BE RELEASED SHORTLY WILL SHOW ROUGHLY [illegible] A SHARE WITH THE FOURTH QUARTER RESULTS THAT [illegible] COMPARED WITH LAST YEAR. HOWEVER PER-SHARE EARNINGS [illegible] SHARES ARE OUTSTANDING [illegible] SHOULD PROVE [illegible] SUBSTANTIALLY AHEAD OF A YEAR AGO. IN PROJECTING 1972 RESULTS [illegible] EARNINGS TO [illegible] EARNINGS TO ROUGHLY $1.[illegible] A SHARE BASED ON A FULL YEAR'S PRODUCTION OF THE [illegible]. THE STOCK CONTINUES TO BE REGARDED AS ATTRACTIVE FOR LONG TERM SPECULATIVE CAPITAL GAINS.

RICHARD [illegible]STEIN

[illegible]

As reported by Mr. James Randall
October 1, 1971

Interest rates will be 6-3/4% and 7-1/2% over the next 12 months. There is a good possibility AAA rates as I mentioned before/will be in the 7% level by March of next year. There are several reasons why we think this will happen. The corporations will not have to go to the capital markets because they should have an increased cash flow from greater profits, pre-tax profits of 15% next year combined with excess flat capacity which is about 73% for the economy as a whole. A 7% surtax we look at as probably being the rate that business will get if they get one at all. There has been a lag in dividend payments because of the wage-price freeze. We look for inflation to moderate over the next 12 months. On the other hand short-term rates will probably go up. Therefore narrowing the gap between short and long-term rates. This is typical when a country comes out of a recession. We look for the prime rate possibly to go to 6-1/2% and then moderate somewhat in the second half of 1972. It looks like we will have lower long-term interest rates with higher short term.

Things look favorable for Topper. I mentioned last week several stores in Union, New Jersey, began to receive some of the puppets. In addition to this May's Department Store in Manhattan ran an in-store promotional on the Sesame Street line at the end of last week, and they had very favorable consumer response. Korvet's a discount chain, will run an ad probably in the New York Daily News this weekend on the product line and will have a chain-wide promotion. This should help their sales considerably. The company may have a debenture offering which has been privately placed for $7 million convertible at $15 a share. This will certainly help their balance sheet. The combination of favorable consumer response and this offering looks good for Topper and is still a buy up to 17-1/2 with a price objective of $25-$30 by early 1972. Concerning the East-Coast dock strike, if it is a short dock strike it will have no effect on Topper. If the dock strike is long it could possibly effect their first-quarter 1972 earnings somewhat. It won't effect them this year since they have already stock-piled their inventories for the Christmas season. This strike has been in the mill for quite sometime, of course Topper and the other toy companies have made arrangements to get around it in some way.

As reported by Mr. James Randall
September 24, 1971

Most of the foreign countries are reluctant to take the moves necessary to revalue their currencies upward because they feel there could recessions triggered by such moves. Phase II is a sticky propositio because the President will have to deal directly with the labor unio and many of them have built-in escalator clauses. If one union recei a 7% increase, then the others will feel like they will have to follo suit. We feel that the near to intermediate term for the economy wi have some clouds over it, but long term we are still very constructi We look for corporate profits to be up 15% on a pre-tax basis in 1972 Long-term interest rates will probably be down by the end of the year and perhaps down to the 7% level on AA's by March of next year.

Special Situations

Topper has begun production of some of the Sesame Street toys. The f shipment occurred last week when they shipped 36 "Cookie Monsters" an 35 "Oscar the Grouches" to a store in Union, New Jersey. By noon las Friday, 14 "Cookie Monsters" and 9 "Oscars" had been sold which is an extremely high rate given that the items had merely placed on the she in the toy department, and there had been no advertising or promotion of any kind. Additional reports of the initial consumer response at various locations will be forthcoming over the next several weeks. I they are at all favorable at first, it should not be too long before stock begins to move up. We continue to regard the stock as a buy up to 17-1/2 for a $25-$30 price objective by early 1972.

[illegible] Systems is around our buy limit of 13. There has been n basic fundamental change in the stock. We like it for a price object of $18-$20 over the next 12 months. We would buy the stock at 13 or below but not above 13.

[illegible] is a buy below 25. We don't think it will go down that lo again, but we have a price objective by November of $35-$40. If we reach that objective, we will be getting to you to get out of the sto

American Recreation Group - Business continues quite strong, and we [illegible] revenues and income for the September quarter to be up 75% or more. Despite a 30% increase in the number of shares outstanding per share profits for the quarter should be around $.40 versus $.32 a year ago. Our objective on the stock is the low 30's. We regard it as a buy at $23 or below. The company should benefit from an appare growing demand for inventors for stocks in the recreation area.

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A 3731

8/9/71

HEARD ON THE STREET -2-

IMPOSITION OF A 10 PC TAX SURCHARGE HAS TAKEN ITS TOLL ON THE STOCKS OF THE IMPORTERS. BUT ONE OF THEM TOPPER -AMERICAN- A TOY CONCERN THAT DERIVES ABOUT 40 PC OF ITS SALES AND EARNINGS FROM FAR EASTERN IMPORTS INSISTS THE PICTURE ISN'T AS BAD AS IT LOOKS. FOR ONE THING HENRY ORENSTEIN TOPPER'S PRESIDENT MAINTAINS THAT THE TAX CAN BE OFFSET BY HIGHER PRICES NEXT YEAR. ASKED WHAT WOULD HAPPEN FOR EXAMPLE IF THE 90-DAY WAGE-PRICE FREEZE ORDERED BY PRESIDENT NIXON SHOULD BE CONTINUED MR. ORENSTEIN THINKS THIS COULD BE SURMOUNTED BY PRODUCT VARIATIONS- -IN OTHER WORDS 'NEW' PRODUCTS. HE ESTIMATES THE TAX WILL COST TOPPER ABOUT FIVE CENTS A SHARE IN EARNINGS THIS YEAR.

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ON ANOTHER MATTER MR. ORENSTEIN SAYS TOPPER HAS ORDERS FOR $5 MILLION OF PRODUCTS BEARING THE SESAME STREET NAME FOR DELIVERY THIS YEAR. HE ADDS THAT FURTHER ORDERS ARE BEING TAKEN ON THESE PRODUCTS FOR 1971 DELIVERY BUT OBSERVES THAT SUCH ORDERS CAN'T EXCEED $8 MILLION THIS YEAR BECAUSE OF PRODUCTION LIMITATIONS. TOPPER'S TIE-IN WITH THE SESAME STREET TELEVISION PROGRAM ISN'T EXCLUSIVE IN THE TOY SECTOR ALTHOUGH THE CONCERN DOES HAVE EXCLUSIVITY ON CERTAIN OF THE PROGRAM'S KEY PUPPETS.

WHILE MR. ORENSTEIN WON'T MAKE ANY FORECASTS SOURCES CLOSE TO TOPPER'S MANAGEMENT SAY THE CONCERN IS AIMING FOR 1971 NET OF BETWEEN 70 CENTS AND 85 CENTS A SHARE INCLUDING THE IMPORT-TAX BITE ON VOLUME OF ABOUT $70 MILLION TO $71 MILLION. IN 1970 TOPPER EARNINGS WERE $1.[illegible] MILLION OR 51 CENTS A SHARE FROM CONTINUING OPERATIONS ON SALES OF $44 MILLION.

-9- 9.34 AM EDT

A 3732

NON 924 7/29/71

TOPPER CORPORATION / TOP /

LISTED ON AMERICAN STOCK EXCHANGE
CHG INVESTMENT DECISION CHANGE FROM 6-6-9 TO 3-2-9

RECENT PRICE 15⅞
1971 PRICE RANGE 16⅛-5⅞ / COMBINED RANGE /
CURR INDIC ANN DIV RATE NONE
PE MULT ON 1970 EARN OF $0.51 - 31.1
PE MULT ON EST 1971 EARN OF $0.60 - $0.75 - 23.5
CHG INT 3 LT 2
IND CLASS - TOYS

COMMENT - AFTER EXTENSIVE LOSSES SEVERAL YEARS AGO , TOPPER HAS
BECOME A MAJOR FACTOR IN THE TOY INDUSTRY , RELYING HEAVILY ON
AGGRESSIVE TV PROMOTIONS . A LOT OF INTEREST HAS BEEN GENERATED BY
THE COMPANYS PLANS TO BR S OUT A LINE OF SESAME ST TOYS , BUT WE
DO NOT EXPECT A MAJOR CONTRIBUTION FROM THIS LINE IN 1971. IN OUR
OPINION , THE STOCK IS AN INTERESTING LONG TERM SPECULATION ,
RECOGNIZING THE RISKS OF A HIGHLY SEASONAL BUSINESS , NARROW
PRODUCT LINE , AND SHORT PRODUCT LIFE .

TOPPERS LINE OF TOYS INCLUDES DAWN DOLLS , JOHNNY LIGHTING
RACING SETS , AND SUZY HOMEMAKER TOY APPLIANCES . IN 1970 THE
COMPANYS TOYS OPERATIONS EARNED 51C A SHARE , UNCHANGED FROM 51C
IN 1969, ON TOY SALES OF $63.9 MILLION VS $53.7 MILLION .
PRIOR TO 1969, TOPPERS RECORD WAS EXTREMELY ERRATIC , WITH LOSSES
TOTALLING $28 MILLION IN THE 24 MONTHS ENDED DECEMBER 31, 1967.
DURING THIS PERIOD , MANAGEMENT REPURCHASED THE COMPANY FROM
A SUBSIDIARY OF PHILADELPHIA AND READING CORP , WHICH HAD ACQUIRED
IT EARLIER . THE RESULTING COMPANY HAD A HIGHLY LEVERAGED CAPITAL
STRUCTURE , AND DEBT HAS SINCE BEEN REDUCED BY ISSUING STOCK .
AT DECEMBER 31, 1970 THE COMPANYS CURRENT RATIO WAS STILL ONLY
1.2 TO 1, BUT A RECENT OFFERING OF 641 THOUSAND COMPANY SHARES
AT $10⅛ AND TWO PENDING PRIVATE PLACEMENTS WILL ALLOW A REDUCTION OF
SHORT TERM DEBT . AS A RESULT OF THIS PROGRAM , HOWEVER , WE
ESTIMATE THAT THE COMPANY WILL REPORT ON ABOUT 3.6 MILLION SHARES FOR
1971 VS AN AVERAGE 2.66 MILLION SHARES IN 1970.

WE BELIEVE THAT THE DAWN DOLL AND JOHNNY LIGHTNING PRODUCT
CATEGORIES ACCOUNTED FOR OVER 80PC OF TOPPERS TOY SALES LAST YEAR ,
AND THE COMPANY HAS ESTIMATED THAT MORE THAN 95PC OF ITS 1970 SALES
CAME FROM ITEMS INTRODUCED SINCE THE END OF 1966. THE COMPANY
BROADENED ITS PRODUCT LINE THIS YEAR WITH THE INTRODUCTION OF TOY
ROBOTS , WIND UP TOY VEHICLES AND A LARGE SIZE DOLL . THE DAWN
CATEGORY WILL PROBABLY SHOW A SMALL INCREASE IN VOLUME THIS YEAR ,
BUT IN OUR OPINION , SALES OF JOHNNY LIGHTNING RACING CARS WILL
BE DOWN SHARPLY . OFFSETTING THIS DROP WILL THE RECENTLY INTRODUCED
PRODUCTS AND THE LIMITED SESAME ST LINE WHICH WILL BE AVAILABLE THIS
FALL . UNDER ITS NON EXCLUSIVE AGREEMENT WITH THE SESAME ST
ORGANIZATION , TOPPER MUST OBTAIN APPROVAL FOR EACH TOY DESIGN AND
IS NOT ALLOWED TO ADVERTISE ON TELEVISION OR DIRECTLY TO CHILDREN .
PROFITS ARE SHARED APPROXIMATELY EQUALLY . WE ESTIMATE THAT THE
SESAME ST LINE COULD APPROACH 10PC OF 1971 SALES AND EARNINGS .

FOR THE 2ND QUARTER OF 1971, TOPPER REPORTED A 7PC INCREASE IN NET
INCOME BUT PER SHARE EARNINGS OF 22C VS 25C ON MORE SHARES OUTSTANDING .
SIX MONTH RESULTS WERE A PROFIT OF 6C VS A LOSS OF $331 THOUSAND
ON SALES FROM CONTINUING TOY OPERATIONS OF $19.3 MILLION VS $15.6
MILLION . ON AN ESTIMATED 35PC INCREASE IN SHARES OUTSTANDING ,
WE ESTIMATE TOPPERS 1971 EARNINGS AT 60-75C A SHARE VS 51C IN 1970.
WE PROJECT 1971 SALES AT ABOUT $70 MILLION VS $63.9 MILLION . OUR
ESTIMATE ASSUMES THAT THERE WILL BE NO LENGTHY EAST COAST DOCK
STRIKE TO DISRUPT THE COMPANYS FOREIGN SOURCES OF SUPPLY .
APPROXIMATELY 55PC OF THE COMPANYS TOTAL PURCHASES OF GOODS IN 1971
WILL BE FROM ABROAD . FOR 1972, WE BELIEVE THAT EARNINGS WILL BE
BENEFITTED BY A SUBSTANTIAL IMPROVEMENT IN SALES AND EARNINGS FROM
THE SESAME ST . LINE AND BY LOWER AMORTIZATION OF
TOOLING . HOWEVER , THE EARNINGS OUTLOOK IS IMPORTANTLY CONTINGENT
UPON THE SUCCESS OF PRODUCTS TO BE INTRODUCED NEXT YEAR .
SIC NCH 5.00 IN

A 3733

1971 JUL

Weiss
Union

DAILY COMMENTS JULY 21 1971

TOPPER CORP /OTC 18 BID/ -
WE BELIEVE THE UNUSUAL STRENGTH IN THE STOCK
YESTERDAY WAS DUE TO A RECOMMENDATION BY THE
ARGUS RESEARCH CORPORATIONS SPECIAL SITUATION
COMBINED WITH THE FAVORABLE RESPONSE OF THE FIRST
DAY OF TOPPERS SHOWING OF ITS NEW SESAME STREET LINE
TO THE TRADE. AS MENTIONED IN OUR MEMO LAST WEEK
THE COMPANY RECENTLY COMPLETED ADDITIONAL
FINANCING OF $7 MILLION AND ANNOUNCED ITS
INTENTION OF PLACING AN ADDITIONAL $5 MILLION
WORTH OF CONVERTIBLE SUBORDINATED DEBENTURES
PRIVATELY WITH SEVERAL INSURANCE COMPANIES.
FOR THE INITIAL SIX MONTHS THE COMPANY ANTICIPATES
PRETAX EARNINGS OF $500.000 VERSUS AN OPERATIONAL
LOSS OF $750.000 FOR THE SIMILAR PERIOD A YEAR AGO.
FOR THE FULL YEAR WE CONTINUE TO ANTICIPATE
EARNINGS OF AT LEAST $0.70-$0.72 A SHARE AND
ANTICIPATE A SUBSTANTIAL INCREASE TO BETWEEN $1.25
AND $1.50 A SHARE FOR 1972 BASED ON THE INITIAL
FULL YEARS SHIPMENT OF THE SESAME STREET LINE.
THE STOCK WILL BE LISTED ON THE AMERICAN STOCK
EXCHANGE NEXT WEEK.
RICHARD BODENSTEIN
GK

A 3734

[illegible] Co. Inc.
Research Department

July 15, 1971

(For Internal Distribution Only)

DAILY COMMENTS

FOLLOW-UP

TOPPER CORP. (14) recently completed additional financing of $7 million, placing $2 million through [illegible] with an institutional investor. In addition, they announced the intention of placing $5 million worth of convertible subordinated debentures privately with several insurance companies. Upon completion of this additional $5 million the company will have, in effect, cleaned up its balance sheet by converting some $20 million in short-term bank loans into long-term borrowings and equity.

For the initial six months, the company anticipates pretax earnings of $500,000 or so versus a consolidated loss of [illegible] for the similar period a year ago. This comparison does not include last year's nonrecurring loss from their [illegible] cosmetic venture. For the full current year, we continue to anticipate earnings of at least $0.70–$0.75 a share. The company will start shipping Sesame Street toys in September or October and naturally this division will have a negligible effect on this year's results. Looking ahead to 1972, we would anticipate a substantial increase in earnings to between $1.25–$1.30 a share based on the initial full year's shipment of their Sesame Street line.

The Sesame Street line will be shown to the trade next week at the New York showroom and the following week in other areas of the country. The stock will be listed on the American Stock Exchange July 27. We continue to regard Topper Corp. as a decidedly attractive speculation for capital gains.

Richard Bodenstein

• • • • • •

THIOKOL CHEMICAL CORP. (THI 12; $0.40) -- Our Institutional Department has issued a detailed report on this company, a copy of which is available at each and every branch office. This situation appears to be rather interesting in that earnings are expected to recover this year to $1.15 a share and to climb further to $1.40 next year, up sharply from the depressed $0.72 of 1970. The outlook for Thiokol's aerospace business has brightened considerably with the increase and shift in defense spending that will emphasize new weapons and modernization of existing weapons. However, even with this improvement, the company's commercial lines are expected to show sharper gains and contribute more than half to pretax earnings in 1972. Reduced overhead, absence of write-offs and high sales volume are all expected to contribute to the current earnings recovery. In these terms, the stock is regarded as having interesting speculative possibilities.

77

A 3735

FIRST NATIONAL CITY BANK
HUBSHMAN FACTORS DEPARTMENT

X

R.O. YOUNG

DATE 2/1/67

FROM Mr. Walter S. [illegible], VP **TO** Mr. John M. [illegible], AVP

SUBJECT: DE LUXE TOPPER CORPORATION

I am enclosing a copy of my memo with reference to a conference that was held at this office with the principals of the above account.

Since the date of the conference, we have decided not to go ahead with the financing for the 1967 season. We have given De Luxe Topper Corporation notice that we will terminate our financing on March 31, 1967 and that in the meantime, they should look for other sources of financing.

Manufacturers Hanover Trust Company, incidentally, does not agree with our decision and is willing to continue financing on the basis outlined to the extent of a 50% participation.

WSS

Att.

CBY 83

FIRST NATIONAL CITY BANK
HUBSHMAN FACTORS DEPARTMENT

A 3736

DATE May 16, 1967

FROM Mr. Walter S. Seidman, VP TO Mr. Ray Young, AVP
Tube #35

SUBJECT: De Luxe Topper Corp.

Regarding your memo of May 3, 1967 the following is the status of the collateral for the debt due from the above account.

Our loans and advances are based upon a formula which attributes certain loan values to each form of collateral which we now hold and which will be assigned to us from time to time. This formula for the present is as follows:

Regular Accounts Receivable	- 80% of eligible accounts
Bill & Hold Receivables	- 50% of face amount
Finished Goods Inventory	- 50% of lower of cost or market
Selected Raw Materials	- 50% of lower of cost or market
Machinery & Equipment	- $3,400,000 through July 1967 3,000,000 August 1967 2,300,000 September 1967 1,000,000 October 1967 100,000 November 1967 -0- December 1967
Cash Collateral	- 100%

Industrial Plants Corporation appraised the liquidating value of the machinery and equipment at $6,000,000. The status of the collateral as of May 12, 1967 and its loan value based upon the above formula was as follows:

Total Regular Accounts Receivable	$3,677,000	
Less Ineligible Accounts	811,000	
	2,866,000	
Loan Value @ 80%		$2,292,800
Loan Value of $328,000 of bill & hold receivables @ 50%		164,000
Inventory - Finished Goods	2,765,000	
Raw Material	4,672,000	
Total	7,437,000	
Less Ineligibles	3,929,000	
Eligible Inventory	3,508,000	
Loan value of Inventory @ 50%		1,754,000
Machinery & Equipment		3,400,000
Cash Collateral		1,000,000
Total Loan Value of Collateral		8,610,800
Loan Balance	C8X 84	8,380,000

Page 2
De Luxe Topper Corp.

Our position has been strengthened by the fact that Henry Orenstein, the President of De Luxe Topper, is now a participant to the extent of $500, 000 in our loans to the above account and his participation is junior and subordinate to our interests and is in effect a guarantee against loss to that extent.

Confirmed orders for merchandise to be shipped on or before June 30, 1967 are about 33 1/3% above projections. Cost and expenses have been running well within projections. Judging from orders received the merchandise is in demand and our loans against inventory should be completely liquidated before the end of the current toy season.

Philadelphia & Reading has agreed to cancel the subordinated note for $19, 000, 000 if De Luxe Topper introduces $2, 000, 000 in new capital into the business within 5 years. The management of this account is presently conducting negotiations toward that end and if these negotiations are successful, the balance sheet will be substantially improved.

W. S. Seidman

FIRST NATIONAL CITY BANK

HUBSHMAN FACTORS DEPARTMENT

A 3738

☐ GENERAL FILE
CREDIT FILE
☑ 2 YRS (W/H 4 YRS)
☐ PERMANENT
☐ SSF

DATE Jan. 1968

FROM Michael J. Palermo, AVP

TO Contract File - C

SUBJECT: DeLuxe Topper Corp.

We have financed this account through two seasons. To induce us to continue for 1968, principals, have increased junior participation from $500M to $1,560,000. and have obtained cancellation of $19MM of debt (Extoy). Client has also obtained subordination of $8MM debt (Extoy) and extension of time for interest payments.

At the present time our advances are covered by 80% of acceptable accounts receivable, and are being seasonably liquidated. It is expected that at month's end the net loan outstanding (after application of $1,156,000. of junior subordinations and $500,000. of cash collateral) will be at $1,350M and covered by 80% of acceptable receivables to the extent of $1,200M; (includes $400M of January Billings) total finished goods and eligible raw materials should approximate $1,400M.

Under the terms of the loan agreement advances are at 80% of eligible accounts, plus advances against inventory and fixed assets per following schedule as at each month's end (permissable variation during each month up to $400M).

		Maximum Advances		Net Investment After Application of
		Inventory	Machinery	Junior Subordinations
Feb.	1968	$ 700M	$1,935M	$1,035M
Mar.		$ 750M	$1,970M	$1,120M
April		$ 800M	$1,480M	680M
May		$ 900M	$1,330M	630M
June		$ 900M	$1,330M	630M
July		$1,050M	590M	40M
Aug.		$1,000M	200M	-0-
Sept.		980M	1M	-0-
Oct.		1M	1M	-0-
Nov.		1M	1M	-0-
Dec.		700M	1M	-0-
Jan.	1969	290M	1M	-0-

MJP/ec

CBX 85

CBX Exh 85 - 11

HUBSHMAN FACTORS DEPARTMENT
A 3739

DATE

FROM

TO

SUBJECT:

-2-

Total Commitment		$9,00,000.
Junior Participants		$2,220,000.
Balance Distributed		$6,780,000.
Manufacturers Hanover	40%	$2,712,000.
Fidelity Union	15%	$1,017,000.
Mercantile	10%	678,000.
FNCB	35%	$2,373,000.
		$6,780,000.

A. J. Lusk
Assistant Cashier

APPROVED:

D. L. Holzman, Vice President

E. Waldman, Vice President

CC: M. Lucarelli, Accounting Dept.
R. O. Young, AVP, Canadian District

AJL/ec

FIRST NATIONAL CITY BANK
HUBSHMAN FACTORS DEPARTMENT

[illegible] FILE
CREDIT FILE
☑ 2 YRS. (W/[illegible] 4 YRS.)
☐ PERMANENT
☐ SEE ROUTING

A 3740 DATE March [illegible] 1968

Holzman
~~Nemoi~~
Fischer
A/C Exec.
READING FILE
CONTRACT FILE
E.W.

FROM Michael J. Palermo, AVP TO Contract File

SUBJECT: De Luxe Topper Corp.

On March 26th, a luncheon meeting was held with Messrs. Saypol, Rose, Holzman, Seidman, Hoffman, Levie, and myself. These are the areas discussed:

1. Sales for March have thus far been dissapointingly below the $800M projected. To some extent this was caused by the pier strike and by the inability to effect a proper inventory balance of ordered merchandise. In any case, Mr. Saypol is confident that shipments for the remainder of this week will be very heavy and that total volume should equal $600M for the month. He further feels that the delinquentcy of $200M will be recouped in April.

2. In an attempt to more easily follow the fate of the '67 accounts, it was agreed that beginning with the aging of March 31, we would consider all invoices dated 1967 as ineligible and advance only against this year's unpaid receivables. Beginning April 1, client will summarize collections and credits into those years in which they apply. This will have the effect of:

   a) Determining the ultimate disposition of the old accounts

   b) Enabling us to refund 100% of collections of the old accounts

   c) More accurately determine availability

   d) Providing a more effective way of conforming with client's records.

   We have arbitrarily valued our acceptable receivable to be $140M but recognize that it could be as high as $220M. If the need should arise, we will temporarily advance against the greater amount until the March 31, aging is received.

3. The client reports that the results at the Toy Show were encouraging. Total orders approximate $7MM as compared with $5.5MM at this time last year. Although it is far too premature, Mr. Saypol feels that projected volume of $33M for the year will probably be achieved.

4. For the months of January and February costs were below budget and below last year's expenses.

CBX 86

CBX 86

FIRST NATIONAL CITY BANK
HUBSHMAN FACTORS DEPARTMENT

A 3741 DATE

FROM TO

SUBJECT:

5. Client is giving some preliminary thought of approaching P & R to negotiate the forgiveness of its remaining $8MM debt. Mr. Saypol feels that if the debt (and the outstanding warrants which would surrender 20% ownership) could be cancelled for a $4MM immediate cash payment, our client would be tempted to seek the public market for $5MM issue which would pay the debt and leave $1MM for working capital.

This possibility is very "iffy" and appears to be too unlikely a prospect to rely seriously upon its occurrence.

MJP/ec

HP 888 REV. 8-60

FIRST NATIONAL CITY BANK A 3742

HUBSHMAN FACTORS DEPARTMENT

DATE July 26, 1968

FROM DAVID L. HOLZMAN, V.P. TO CONTRACT FILE - Conn.

SUBJECT: DELUXE TOPPER CORP.

☐ GENERAL FILE
CREDIT FILE
☑ 2 YRS. (W/H 4 YRS.)
☐ PERMANENT
☐ SSF

In a phone conversation today Ron Saypol advised me that DLT had raised an additional $945M (in addition to $1MM) from outside sources toward purchase of P & R estate and, therefore, only $[illegible] will be needed out of cash flow for payments due P & R this year. Probably no revision of line limit will be required unless sales volume substantially exceeds expectations, in which case he will furnish a revised projection in advance.

DLH:SS

EW

CBX 87

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

A 3743

DATE July 17, 1969

FROM A. J. Lusk, A.V.P.

TO Contract File

SUBJECT: Topper Corporation

☐ GENERAL FI
CREDIT FILE
☑ ~~2 YRS.~~ (W/H 4 YRS.)
☐ PERMANENT
☐ SSF memo

I spoke to Jack Rose, V.P. Finance, regarding the reduction of the M & E sub-limit from $2MM to $1MM on 7/22. Reduction was originally scheduled for 7/1 but at client's request, we extended both the June and July limits an additional three weeks.

At the moment shipments for the month are expected to be approximately $6MM as projected. Hot weather which effects their production and shipping ability may have a negative effect. Billing in process (goods already shipped) but not ready for assignment is approximately $1.6MM. It is Jack Rose's best guess that they can absorb the reduction certainly by month-end and probably at the 7/22 cut-off. However, we should be prepared to extend the sub-limit for a few days if the need exists. The understanding being that any over-age will be re-couped from end of month sales.

Orders are now in the area of $50MM or the same as SALES projected FOR THE Y. Expectations are that actual sales for the year will be between $55MM and $60MM. The latter figure is an estimate of their "practical" production capacity. A point will soon be reached when orders for 1969 will be declined.

Regarding the line limit of $13.5MM, Jack Rose is hopeful that even on a volume over that projected, they will be able to live within the line. However, due to the understandable uncertainty of collections, there is the possibility that for short periods (10 days - two weeks), they might ask to go over the limit.

The cash collateral portion of the loan (and collateral) is presently $1.5MM. As the main purpose of the cash collateral is to provide compensating balances to Manufacturers and Fidelity, reversing the balances will provide more flexibility in line. Balances are under our control, subject to Toppers instructions but must only be used to reduce the loan balance.

Main purpose of this memo, is to record eventualities which may arise while I am away on vacation. Jim Dillon will handle client in my absence.

INANCE ROUTING
Holtzman
~~Marotta~~
Fischer
/C Exec.
ADING FILE
ONTRACT FILE

CC: James Dillon, A.C.

AL/ec

A. J. Lusk
Assistance Vice President

CBX 89

noted - if these contingencies take place
Jim Dillon should obtain required authorization

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

A 3744

DATE August 5, 1969

☐ GENERAL FIL
☐ CREDIT FILE
✓ [illegible] (W/H 4 YRS)
☐ PERMANENT
☐ SSF

FROM A. J. Lusk, A.V.P. TO Contract File

SUBJECT: Topper Corporation

Luncheon discussion today, attended by:

Topper

David Downs
Jack Rose
Julie Schwartz

Bank

Edward Waldman
David Holzman
Charles Marotta
Al Lusk

High lights as follows:

1. Suit by Mattel - involved a particular segment of "Johnny Lightning "T V advertsing and a blister package used for the cars. Mattel motion denied by the court. Harassment seems to be motive for suit and Topper may institute counter suit on that basis.

2. Projected volume of $50MM assured. How much more than $50MM they can accomplish depends on order mix and production availability. Net profit is expected to be substantially more THAN projected. Expenses under good control.

3. Production of Johnny Lightning cars from outside source still disappointing but being offset by rapid and successful start-up of production for this item in Elizabeth plant. Quality better than outside source.

4. The delivery from the Far East of the "Busy Baby" doll continues to be delayed.

5 Points 4 and 5 have therefore affected a lower sales level than expected for these toy items but for the most part short fall has been made up by other sales.

CBX 90

A 3745 DATE

FROM TO

SUBJECT:

6. Jack Rose expects they will be able to live within the overall credit limit of $13.5MM. However, all though collections have been better than projected, they are nevertheless unpredictable on a week to week basis. Therefore, there may be a necessity for an additional $500M of line. They are not requesting the increase but are merely advising of the possibility. Bulge, if it does occur, will be in October.

7. M & E (Chattel) and Inventory sub-limits were discussed. The following schedule is herewith approved.

M & E	$1,000M	thru	8/31
Inventory	$1,250M	thru	9/30

The M & E extension is only a week or ten days beyond what was previously approved. The inventory is an extension and increase from the previously approved $900M.

8. We are also recommending substituting an approved over-advance of $500M (representing less than 5% of eligible accounts receivable) for the present $400M over-advance. New over-advance to be recouped monthly as heretofore. This will also partially cover the difference in M & E projected figure of $1,150M vs. our sub-limit of $1MM.

A. J. Lusk
Assistant Vice President

SUB-LIMITS APPROVED AS ABOVE

D. Holzman, V.P.

E. Waldman, V.P.

A 3746

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE September 21, 1969

FROM A. J. Lusk, A.V.P.
TO Contract File
SUBJECT: Topper Corporation

As outlined in prior memorandum, Jack Rose, Financial, V.P., now believes they will have need over and above the $13.5MM line limit.

Collections for September will probably be short of expectations by approximately $500M. Jack Rose feels that tight money is the chief cause of the slow down of collections. He therefore, expects they will require a peak of $14MM from now through the end of October. As discussed previously, the excess of $500M will be covered by accounts receivable. In fact, the inventory sub-limit of $1250M will run out at the end of September and the entire loan then covered by receivables (or cash collateral).

Our portion of the increase (including the amount of the increase passed on in April) amounts to $1,050M or 21.8%. The foregoing includes Mercantile's 5% of the total credit.

We are recommending increasing the over all line from $13.5MM to $1 4MM provided excess is covered by receivable collateral.

A. J. Lusk
Assistant Vice President

APPROVED:
LINE INCREASED TO $14MM to 10/31/69

D. Holzman, Vice President

E. WALDMAN, Vice President

CBX 91

NF 550 REV. 8-60

A 3747

☐ GENERAL CREDIT FI
☑ 2 YRS. (W/H 4
☐ PERMANENT

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE October 21, 1969

FROM A. J. Lusk, A.V.P. TO Contract File

file

SUBJECT: Topper Corporation

Jack Rose, V.P. - Finance and Julie Schwartz, Treasurer, were our guests for luncheon today.

Present were:

E. Waldman, Vice President
D. Holzman, Vice President
C. Marotta, Assistant Vice President
A. Lusk, Assistant Vice President

Principal discussion concerned the inventory sub-limit which was $1.250M through 9/30/69. Although we are not convinced that they will require further inventory accommodation this season, Jack Rose believes there is a possibility of that requirement, especially if they have an increase in past due accounts as of the 9/30/69 aging. As we have been previously advised, collections have been below expectations (about $500M below projection of Sept.). Slow down is attributed to tight money. There is certainly no reason for alarm concerning this development at the present time.

Again I do not believe the additional inventory accommodation is needed ($500M requested for the month of October) but I see no risk in making it available. Inventory (finished and raw) is in excess of $6MM.

Lusk
A. J. Lusk
Assistant Vice President

Inventory Sub-limit of $500M approved to 10/31/69

E. Waldman, Vice President

D. Holzman, Vice President

C. Marotta, Assistant Vice Pres.

[illegible]FICE ROUTE[illegible]
~~[illegible]~~
~~[illegible]~~
[illegible]
READING FILE
CONTRACT F[illegible]

CBX 92

CBX 92

A 3748

FIRST NATIONAL CITY BAN
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE October 9, 1969

FROM Charles C. Marotta, A.V.P. **TO** Contract File

SUBJECT: Topper Corporation

Today Jack Rose phoned me explaining that collections have seriously fallen off and has upset his cash flow to the point of coming to us to increase their line to $14.5MM from $14MM.

In addition to the slow down of collections Topper is making their final payment of $500M to P. & R. which is due Oct. 15. Mr. Rose wanted to prepare us in advance if he should need this extra $500M, however, this may all be an exercise if collections pick up.

The above was discussed with the Messrs. Holzman & Waldman who approve with me this addition to the line if and when it is required.

FINANCE ROUTING
~~[illegible]~~
~~[illegible]~~
[illegible]
A/C [illegible]
READING FILE
CONTRACT FIL
E.W.

Charles C. Marotta
Assistant Vice President

CBX 93

A 3749

F 553B R 6-69

FIRST NATIONAL CITY BANK
FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE 2/12/70

FROM C. J. Luck AVP TO M. Frankel

SUBJECT: Topper

ACCOUNT #

I have eliminated the present reserve for returns of $2 MM and established reserve for redating of $1.5 MM.

Luck

CBX 96

A 3750

FIRST NATIONAL CITY BANK

FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE February 13, 1970

☐ GENERAL FILE
CREDIT FILE
☑ [illegible] W/H 4 YRS.)
☐ PERMANENT
☐ SSF

FROM A. J. Lusk, A.V.P. **TO** File

SUBJECT: Topper Corporation

In reviewing the basic financing agreement of 10/4/66, it is noted that the agreement in paragraph 7 limits the loan to a maximum of $20MM.

The line of credit in preparation is $15,500,000.

We should note that when and if, a line of more than $20MM is considered, our agreement must be amended accordingly.

A revised term loan summary has also been prepared.

Lusk
A. J. Lusk
Assistant Vice President

FINANCE ROUTING
~~[illegible]~~
HOLZMAN
~~LUSK~~
FISCHER
A/C EXEC.
READING FILE
CONTRACT FILE

Ew

CBX 97

FIRST NATIONAL CITY BANK

FACTORING AND COMMERCIAL FINANCE DEPARTMENT

A 3751

DATE April [illegible], 1970

FROM M. Siegel, A.C.

TO Contract File

☑ GENERAL FILE
CREDIT FILE
2 YRS. (W/H 4 YRS.)
ENT
Memos

SUBJECT: Topper Corporation
Redating

Originally $1,572M of accounts receivable was held as ineligible, awaiting proper documentation for redating. As confirmation of redating was received, reinstatement to eligible collateral was effected.

We have to date received $1,095M in acknowledgements signed by the customer or approximately 2/3rds of the amount involved. We have therefore, reinstated the full amount of redating in lieu of responce.

M. Siegel
Assistant Cashier

MS/ec

FINANCE ROUTING
DUNN
HOLZMAN
~~LUSK~~
FISCHER
A/C EXEC.
READING FILE
CONTRACT FILE

E.W.

CBX 98

[illegible] FINANCE DEPARTMENT

A 3752 DATE September 30, 1970

FROM Edward Waldman, VP TO CONTRACT FILE

SUBJECT:

TOPPER CORPORATION

Had dinner the other night with Henry Orenstein. The following points should be noted for the file.

1. Henry claims that most of the accounts which were redated last year have paid. He estimates that perhaps $200,000 is still open.

2. The Youth Care venture has pretty much slowed down to a halt by choice rather than any difficulty in production. Orenstein said he made the decision several months ago when money was very tight and he was faced with a $600,000 advertising campaign in order to get the production off the ground. He decided then it was more important to conserve his funds for the Topper operation.

3. The profit picture for the year should end up at about the same or better than last year, that is between $4 MM and $5 MM before $1.8 MM write-off against fixed assets. The loss on Youth Care would be more than off set by the profits on the sales of their other items. Henry estimates the Dawn sales would exceed $25,000,000.

4. The present understanding is that Topper will be out of debt to us by the end of January. Henry wanted our further consideration in allowing him to owe us between $2 MM to $3MM at that time. The reason for this is the continued Dawn sales projected through the Spring. He assured me that there would be accounts receivable of between $8MM to $10 MM all for current (December and January) Dawn shipments. Under these circumstances I agreed that we would forgo the clean-up but I reaffirmed that it would only be on new collateral with ~~nominal~~ normal dating, etc.

ROUTING

Edward Waldman,
Vice President
EW

EW/mds

CBX 102

FIRST NATIONAL CITY BANK **A 3753**

FACTORING AND COMMERCIAL FINANCE DEPARTMENT

DATE March 10 197[illegible]

FROM A. J. Lusk AVP TO File

SUBJECT: TOPPER CORP.

In discussions on 3/5 and 3/9 Jack Rose mentioned that they are planning an additional warehouse program for retail type customers. Warehouses would be located at various points close to customers with substantial retail demand. This program is in the planning stage and further details are not available. I told Jack Rose that before they make commitments for this or any other new sales program, they should meet with us and provide full details for our review and decision.

Later, on the 9th, E. Waldman spoke with H. Orenstein and told him we were not fully satisfied with the current "bill and hold" arrangement at the Elizabeth warehouse for various customers totaling approximately $5.8MM. Henry was told that future advances would only be at the normal 80% of accounts receivable for merchandise actually shipped to customers. It was agreed that this arrangement would be followed for at least the next three weeks, with Topper probably approaching us further on the subject of warehousing goods for customers after three weeks. No commitment was made to reverse the above, however.

AJL

CBX 103